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THE QUARTERLY REVIEW OF COMMERCE

VOLUME VIII, No. 2

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The Rowell-Sirois Report—Destination Unknown

*W. B. Harvey, Ph.D.
Stephen Leacock
Sir Edward Beatty
Herbert L. Stewart
John B. Kennedy
Gilbert R. Horne
J. Campbell
W. M. Drummond
W. S. Thompson
Robert E. Consler
Walter J. Blackburn
George C. Campbell
Tom Faust, Jr.*

Propaganda a la Mode

Investment Analysis and the War

Vocational Rehabilitation and Workmen's Compensation *J. Campbell*

The War and Canadian Agriculture

"Trans-Canada" Abreast of the Times

The Advent of Merit Rating in Canada

Buying Insurance

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WINTER NUMBER
1941
UNIVERSITY OF WESTERN ONTARIO



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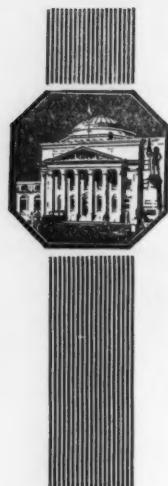
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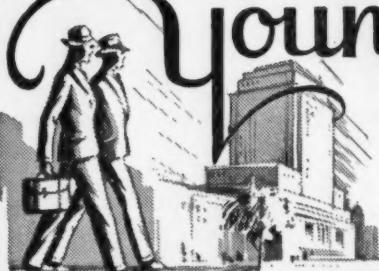
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WINTER, 1940-41

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STEPHEN LEACOCK holds a well-known and unique place among the writers and authors of our period. Discussing the Rowell-Sirois Report, he expresses the feelings of a great many Canadians in one short paragraph.

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THE QUARTERLY REVIEW OF COMMERCE

Winter
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Volume VIII.
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THE ROWELL-SIROIS REPORT— DESTINATION UNKNOWN

"Since the Rowell-Sirois Report is not to be considered now, what alternative should be chosen by Federal and Provincial Governments to meet the problems outlined in the report?"

We asked certain leaders of Canadian business and political thought this question. Lack of time, for which we must apologize, prohibited several of them from supplying anything for publication; Stephen Leacock—probably our best-known Canadian author; Sir Edward Beatty—Chairman and President of the Canadian Pacific Railway Company, and Herbert L. Stewart—Editor-in-Chief of *The Dalhousie Review*, forwarded us their answers. These we print immediately after a short summary of the Report by Dr. Harvey of the Department of Economics and Political Science, University of Western Ontario.

* * *

PROF. W. B. HARVEY, Ph.D.

THE Royal Commission on Dominion-Provincial relations was appointed to report on two different but related difficulties which had been growing in seriousness for some time and reached a climax in 1937. The first was the allocation of legislative power, the second that of finance. In the former the trouble arose from the fact that our economy was becoming more integrated and more complicated and therefore more in need of Dominion control while the legislative power

of the Dominion was being reduced by successive decisions of the Privy Council. The financial difficulty grew out of the fact that provincial functions such as education, health, roads and relief came to require larger sums of money than the provincial revenue systems could provide. The straw—a better expression might be the telephone pole—that broke the camel's back was relief, the burden of which was so great and so perversely variable (being heaviest precisely when the tax-bearing capacity of the province was lowest) that the finances of the hard-hit provinces inevitably collapsed.

In 1937, the Privy Council declared unconstitutional, legislation passed by the Dominion Parliament on the following subjects—minimum wages, hours of labour, age of employment, unemployment insurance and marketing of primary products. In the same year, relief payments in Saskatchewan amounted to 163 per cent. of the combined provincial and municipal revenues of the province. The result was that the Dominion Government, to prevent absolute starvation as well as to save something of the credit of the provinces, found itself paying out huge sums in loans and "grants" which completely wrecked the previous Dominion-Provincial financial arrangements.

In dealing with these problems, the Commission acted on the basis of three general principles—first, not to recommend change except where the need was urgent; second, to safeguard the autonomy of the provinces as cultural units; third, to combine financial responsibility with legislative authority. In line with these principles the Commission recommended that the Dominion be given jurisdiction over the following:

1. Labor Legislation (hours, minimum wage, age of employment, power to implement conventions of the I. L. O., also industrial disputes and Workmen's Compensation in case any province should delegate its power over these matters).
2. Marketing, including grading, etc., of products of kinds that enter inter-provincial or foreign trade.
3. Fisheries (concurrent with provinces).
4. Financial supervision of insurance companies, except those operating solely within the province of incorporation.

In the financial sphere the commission suggest more sweeping changes. It is recommended that provision for unemployed employables (in the form of unemployment insurance where feasible) be taken over by the Dominion. This is because the burden is so heavy and so variable

and because the most promising methods of preventing or remedying unemployment are within Dominion jurisdiction. No change is suggested in the case of other welfare services unless old age pensions are made contributory (which is advised) and in this case it is suggested that they be taken over by the Dominion, which would be making collections from the same individuals on account of unemployment insurance.

It is recommended that the provinces withdraw from the field of income taxation, individual and corporate, and of succession duties. This is partly to enable the Dominion to bear the added burden of unemployment and partly because these taxes can be more equitably and economically administered as Dominion taxes. The loss of revenue suffered by the Provinces from the abandonment of these taxes would run from 59. of combined municipal provincial revenues in the case of Saskatchewan to 201. in the case of British Columbia, but in no case would the loss equal the benefits the provinces would secure if the rest of the recommendations were adopted.

Another major recommendation is that the Dominion take over the dead weight burden of all provincial debts—that is, total provincial debt less allowance for earnings of any provincial assets such as the Hydro. This will permit considerable savings in interest charges as well as allow certain provinces to escape the crushing burden of debts incurred in recent years to finance relief. It is suggested that all future borrowings of provinces be made payable in Canadian funds only.

Minor suggestions include the merging of the courts of appeal of the prairie provinces and of the maritimes, respectively, and the transfer of police functions to the Dominion from those provinces that still maintain provincial police. In general, the commission found that no great savings were to be obtained from amalgamating provinces and eliminating overlapping of Dominion and provincial services.

Finally, the Commission recommends the institution of National Adjustment Grants in lieu of existing subsidies and other forms of Dominion aid. These grants are to be reviewed every five years (but not to be reduced below the original amounts) on recommendation of a proposed finance commission to be set up to study the financial and other aspects of Dominion-Provincial relations. These grants are to be set at such a level that each province shall be able to provide educational, welfare, and developmental services up to the Canadian average without imposing taxes higher (in relation to income) than the Canadian average. This is designed to correct the anomalous situation flowing from the differences in provincial per capita income which

permits education to receive over \$12 per capita in Ontario and British Columbia as compared with \$8.72 in Saskatchewan (1937 figures), notwithstanding the fact that those amounts represent less than 3 per cent. of provincial income in the two former provinces as against 4.2 per cent. in Saskatchewan. In this suggested basis for grants to the provinces lies the most distinctive feature of the report.

* * *

STEPHEN LEACOCK

While the war lasts, the Federal Government has power to do anything necessary for the prosecution of the war. Everything else can sleep. Much of it, like Marlowe's Edward the Second, will never wake. See also under Sleeping Beauty, Rip Van Winkle, Ephesus, Morpheus, etc., etc., etc.

* * *

SIR EDWARD BEATTY

Your request for a letter expressing my views on the question "Since the Rowell-Sirois Report is not to be considered now, what alternative should be chosen by Federal and Provincial Governments to meet the problems outlined in the Report?" is one with which I should like to comply. The difficulties which attend an answer to a question of this nature from a business man are obvious. You ask for suggestions for alternative action, in view of the failure of a recent conference to consider the Report of the Royal Commission on Dominion-Provincial Relations. The Report dealt with matters which basically affect our system of government in this country, and some of the recommendations were, frankly, of a nature which justifies their being described as suggestions for an alteration in the terms of Confederation.

It is difficult for a private citizen, whose chief daily interest is the conduct of the affairs of a privately owned corporation, to justify his public intervention in the discussion of such questions. On the other hand, I have preached the doctrine that business men must be prepared to give leadership to public opinion with sufficient frequency

to lead me to feel that consistency requires that I should not evade your challenge.

It will perhaps be possible for me to accede to your request, within the bounds of discretion, by confining my reply to the statement of certain facts which are before the country—facts which reflect conditions which must directly affect the lives of all our citizens, and the operations of all forms of business in Canada, as well as the actual administration of the Dominion and its Provinces.

One fact which was very present in the minds of those who wrote the Report was the existence of unemployment on a large scale, and persisting over several years. For the moment, this problem no longer exists. It may recur—even in an aggravated form—after the victorious conclusion of hostilities. The recommendations of the Report were, on this point, that provision for the care of employable unemployed persons should rest solely on the Dominion Government. With that conclusion I am substantially in accord. Perhaps my reason for this is not precisely that which has been put forward by some of the warmest advocates of this change in our public policies of recent years. My conviction is that it is a mistake to regard unemployment of employable persons as one of those inevitable conditions for which public authorities must make provision on a lasting basis. I regard unemployment of employable persons as something which should not be more than a temporary condition—arising from such a cataclysm as the crash of financial and commercial activity about a decade ago. It should be cured by the enterprise of employers, seeking new markets, new products for existing markets, and thus creating new employment to replace those forms of employment which have temporarily vanished. It cannot, I believe, be cured by setting up such complex and lasting systems of relief as those with which we experimented in recent years.

For simplicity in dealing with what should be a temporary condition, I believe that it is well that the responsibility should lie on one public authority, and I believe that convenience would justify our placing this responsibility on the Government of the Dominion.

Another important recommendation of the Report was to the effect that the transportation situation of the country should be given new study. In well-meant attempts to extend and improve the transportation facilities of Canada, we have succeeded in creating a combination of railway, highway, waterway and airway transport much in excess of the needs of the country. It is my opinion that the subject scarcely requires any addition to the mass of investigations and reports

which now exist. Rather, I believe that the situation is one which demands action. Most of that action can, within the bounds of our constitutional system, be taken unilaterally by the Dominion Government. The control of railways, waterways and airways lies in the hands of that authority. When you come to consider the question of highway transport, we are faced with problems which affect the rights and duties of Provincial administrations, and I believe that a Dominion-Provincial Conference should be assembled to deal realistically with what is becoming a very grave question—seriously affecting the financial stability of several of our Provinces.

DOMINION-PROVINCIAL FINANCIAL RELATIONS

The remainder of the recommendations in the Report dealt chiefly with the financial relations between the Dominion Government and the Provinces. It is with the deepest regret that I have to admit that action of some special nature must be taken in this field—in the near future. For my own part, I know of no reason why, given the careful administration of public services, and a serious attempt of all our public authorities to operate on the system of balanced budgets, we could not have avoided the financial situation which is so accurately set out in the statistical studies made by the staff of the Royal Commission. I know of no reason why any public authority in Canada is necessarily in danger of insolvency at this time—except that our public policies have, in the past, been conducted without due regard to the dangers presented by public debts—Dominion, Provincial and municipal—which have been increasing at a terrifying rate for two decades.

It is sometimes alleged that these debts resulted from the inevitable consequences of the War of 1914 to 1918, but I take exception to this view. Special forms of taxation imposed to meet the cost of that war were imposed by the Dominion Government, and have actually yielded sufficient money to meet all, or almost all, of the Canadian war debt.

It is my opinion that our public debt grew as rapidly as it did because of undue optimism, of unwise extension of the functions of government into fields in which it has been proved that it is difficult for them to operate successfully, and of the gradual establishment, in the minds of our people, of an unsound belief that the public authorities can obtain money from some source other than taxation of the citizen's earnings, or from borrowing which must, sooner or later, be repaid, or at least serviced, out of the citizen's earnings.

In the circumstances produced by the long-continued disregard of

sound principles of public finance, and faced by the added and acute emergency of the present state of war, any faith in our ability to avoid some special action in this field of public finance, however well founded in normal times, becomes impossible of maintenance, and I am one of those who admit that steps must be taken to deal courageously with this question.

I believe that much can be accomplished by the unilateral action of our various public authorities in reducing public expenditures, of a type not required for the direct conduct of the war. It is unnecessary to catalogue the possible reductions: they are visible and known to our public authorities as well as to many of our private citizens. What is needed, in this field, is energy and courage.

With all possible reductions of non-war expenditures, we must still face the fact that the Dominion Government will be faced with grave financial problems, as long as it is necessary to maintain our war effort. These problems are, in one sense, not financial. They are problems revolving around the necessity of obtaining large supplies of materials and labour for war purposes. This could be accomplished by drastic conscription and expropriation of labour and materials, but it appears to be generally realized that such a course should be avoided, as tending to produce an incredibly complex problem of administration, and much friction in a country not accustomed to such severe methods.

For this reason, we seem inclined to accept the alternative of carrying on our public and private affairs along the lines to which we are accustomed. The Dominion Government appears to intend to obtain the materials and labour which it requires for war purposes by spending money, and to obtain the funds necessary for this purpose by a combination of increased taxation and large borrowing from private citizens.

It is clear that, in order to accomplish adequate results, the Government of Canada will be forced to call upon the citizens of the country to make at least minor reductions in their standard of living, and to sacrifice the ownership and use of certain commodities and services, so that the state may be able to obtain its needed supplies of these, without the necessity of outbidding private citizens in a competitive market.

To attempt to accomplish this by rationing the supplies of materials and labour is open to the same objection as conscription and expropriation. It requires the creation of too complex a governmental machine.

We must therefore seek to give the state the preference in acquiring goods and services by diverting to the public treasury forced or voluntary contributions from private incomes — thus furnishing the state with funds, while private citizens are deprived — for the time being at least — of some of their funds, and of the right to use them.

I am convinced that no trickery of inflation or other monetary schemes can alter this situation. As has been well said, a bottle of milk still contains a pint, if it is a pint bottle, even if a quart label is put upon it.

For these reasons, I am forced to the belief that it is highly important that there should be the most complete co-operation between all forms of public authorities in Canada, in the field of economic action and public finance — at least during the continuance of hostilities. The recent Dominion-Provincial Conference was an attempt to obtain such collaboration, but it failed of its purpose. In the circumstances, the moment scarcely seems propitious for the assembling of another and similar conference, to deal with exactly the same questions which it was intended to examine at the previous conference. I believe that our only course will be for the Dominion Government — the sole repository of national authority — to provide itself with the labour and materials it needs for the conduct of the war, by employing such methods of taxation, and such appeals to the willingness of the public to lend money to the state as may be most convenient for its purposes, and that provincial and municipal administrations will necessarily be forced to adjust their operations, in the field of finance, to the conditions established by the overmastering needs of the Dominion Government.

I believe that it is particularly important that we should have a much more active and general discussion of the financial and economic situation of the country than has yet been undertaken. I feel that the Ministers of the Crown should endeavour to obtain all the assistance which they can in this field from private citizens and private and public bodies who might be able to command public attention. I believe, in particular, that the Dominion Government will find it necessary to issue very much more precise statements of the economic and financial needs of the state than are yet available, and to give fairly definite advice to individual citizens as to how they can best modify their consumption of goods and services, in order to release supplies of these for war use.

On the whole, I assume that a comparatively short period of popular education in this direction will prepare the ground sufficiently to

justify the convoking of another Dominion-Provincial economic conference, to consider how best Provincial authorities may adapt their policies to meet the needs of the National Government.

In stating these opinions, I should like to reiterate my conviction that our constitutional system can be made to work in its present form. The needs of the moment may lead us to some temporary increase in the relative power of the Dominion Government—especially in the field of taxation. There may be some permanent effect in this direction and even in connection with the old division of jurisdiction between Dominion and Provinces. I trust that nothing will occur in the nature of any basic interference with the principle of Provincial autonomy. However, with every desire to see Provincial rights respected, I cannot but feel that in a crisis such as that which now exists we must be willing, as individuals, as residents in municipalities and citizens of provinces, to show unusual willingness to subordinate our personal or local interests to the need of the state for resources without which we cannot hope to sustain the burden of a war for life. The immediate problem before us is to maintain the independent existence of Canada as a nation, and we can all safely make many concessions to this essential need.

* * *

HERBERT L. STEWART

We cannot, at such a time as this, afford another *abortive* attempt. What made the last attempt *abortive*?

Members of the conference would not even exchange views on a Report prepared with great labour, by highly competent investigators, on matters of vital Canadian concern. Why the refusal? In great part at least, because they thought they saw an attempt to exploit war-time emergency for a hurried constitutional change on which, whether good or bad, it would be impracticable to go back—for perhaps another seventy-year period. I express no opinion here on the justice or injustice of this resentment: enough that the complaint was sharply made, even by so moderate a “cross-bench” delegate as the Premier of Quebec. But why, through such anger, discard the fruits of all this work?

Let Dominion and Provinces derive suggestions from the Report for measures of avowedly temporary character by

which the present war-time emergency may be met, reserving — without prejudice — the proposals of permanent constitutional change for adequate consideration after the war.

Someone will object "But it is not just a *war-time* emergency." Be careful how you say that. It was such suggestion that wrecked the conference. Nothing but appeal to war-time necessities will have the least effect towards securing unanimity.

I have in mind a small group, working (like other war institutions) under a time limit, at arrangements and accommodations for revocable use. The much-abused Rowell-Sirois Report will give them many a hint for their own far more modest job. Whatever we think of that Report's remedies, it has explored and set forth grievances and dangers with unexampled clearness and fullness. Of the three chief issues it specified as urgent, one has solved itself — temporarily, and tragically, but for the time definitely: so long as the war lasts, there can be nothing "urgent" about unemployment relief. The other two were: (i) maintenance of provincial capacity, despite the weight of federal taxation (present and to come), for essential services; (ii) provincial power to continue, under present grievous conditions for a provincial treasury, the payment of bond interest and redemption of loans at maturity (by conversion or otherwise). The Report recommended means to meet such dangers permanently, by a constitutional change with alarming consequence for certain provinces. What the group I am suggesting would have to consider is how they can be met temporarily, in a manner requiring from these alarmed provinces (as from other interests) only temporary war-time sacrifice.

If we cannot find advisers to show us how to do a temporary job like this, we shall fail in many another problem of war effort. A point I think here worth making is that there must be no affectation of federal magnanimity, still less any touch of federal threat to the provinces, in the adjustment made. The chief danger to provinces will have arisen through federal demand on their usual sources of revenue, so that their claim is not of grace, but of right. If, for example, it should be judged needful (in order to conserve resources in foreign currency) to ration the use of gasoline, those provinces whose revenue for support of essential services has come largely from a gasoline tax are entitled to look for a substitute in the form of federal grant.

My "alternative" has difficulties. But let no zealot, for the Report on the one side, or for the rival expedient of "inflation" on the other, exaggerate these difficulties in the interest of his own pet scheme.

Suppose that here is no more than a second-best plan; the one which devotees of the Report judge best is now impossible, while the plan of the inflationists rouses horror in those who have a real idea of what it means. What nonsense it is to pretend that temporary stabilizing, on Dominion credit, of the finances of a province which has been imperilled in part at least by Dominion policies, is a problem either desperate or unfamiliar! Or to make a mystery about transient Dominion guarantee that a province deprived for federal purposes of funds on which it relied to pay school teachers or to meet bond interest shall have enough to avoid defaulting on bonds or closing schools!

It will want working out in detail, and quickly, but not more than moderate wits.

PROPAGANDA À LA MODE

JOHN B. KENNEDY

The title of this article is self-explanatory. To quote Mr. Kennedy, National Broadcasting Company news commentator: "Propaganda is the art of making action speak louder than words."

* * *

DURING the last war this word "propaganda" became familiar. It had opposite meanings for people on opposite sides. What our side said was a communique; what the other side said was propaganda. Both sides lied. Indeed, the first moves in war are always made by the liars and not the heroes. That is especially so in this war, when on critical occasions Hitler, as leader of a great people, told lie after lie—monstrous lies—which he knew to be untrue and which the rest of the world, excepting perhaps his own folk and the deluded Italians, also knew to be masterpieces of prevarication.

Of course that kind of outright propaganda is Hitler's avowed policy as clearly set forth in *Mein Kampf*. The French are now complaining that even before a peace treaty is discussed the Germans have already broken the armistice terms. What on earth did the French expect? They should know that the entire totalitarian system rests on the lie that the state is the master and the citizen a serf: from that central lying denial of human dignity the whole vicious structure rises in a tower of lies that threatens to imprison human freedom for generations if the cause of democracy fails.

During this war, as before it, anybody pretending to inform the public by air or ink studied what both sides had to say about their cases. The Nazi ministry of propaganda and, as they archly put it, Public Enlightenment, flooded each country Germany attacked, prior to attack; and also took good care the neutrals were smothered with German arguments. For instance, just before Poland was crushed a German white book was dumped by tens of thousands into the United States. It was a chamber of horrors between covers, strikingly illustrated case histories of Germans persecuted by the Poles. A masterly job. But its impact was nil on the American mind which already was largely and deeply prejudiced against the Nazis because of their own brutal persecution of Germans, especially of Jews.

French propaganda was, as usual, hysterical; while the British were characteristically slow in getting their message across. But when it came there was no more lucid and persuasive and, incidentally, factual and truthful account of the terrible hours that revealed the entire Nazi plan of world assault than Nevile Henderson's final report as Britain's Ambassador to Berlin. That document will live.

Ex parte propaganda has not been as effective as in the last war because news in print and radio are so many jumps ahead of the government bureaus. Again, the press took pains to label stories and pictures by their source. All the polls indicate that before the war began the American mind was made up that it wanted the Allies to win; and when Italy did the dagger-in-the-back act and France fell, the shock drove doubters (cynically inclined after British balking on war debts) into the pro-British camp. Of course, there are always dissidents along racial lines.

Don't forget, too, that Canada's stalwart stand for the mother country was as fine a piece of propaganda as any to affect so-called neutral judgment. This supports the simple thesis to which I adhere that propaganda à la mode should be, and is, the deed rather than the word.

The countries in this hemisphere have been saturated with totalitarian propaganda—Nazi, Fascist and Communist—because they have left about the freest press on earth. But it has done little good in aligning public opinion. But one country in all the vast expanse of Central and South America has given any concrete evidence of Nazi sympathy and that was Brazil when the Brazil movie censor sent word to New York—which supplies the Americas with most of its news reels—that harsh or too critical commentary on Germany would not be tolerated. Germany itself never made any such protest; at least, it hasn't up to now.

Italian propaganda is clumsy, defeating its own ends by the violence of its invective; and Japanese propaganda is so much undercover that it is lost only to be suddenly revealed and ruined when the Japanese Foreign Minister, backed by an Axis alliance that may mean anything or nothing, emerges to make a direct threat at the United States, which also means a threat at Canada, with which country the U. S. is allied for defense.

Britain, or rather Britishers, have not been guiltless of maladroit and futile propaganda. An aged relic of the British aristocracy strode

about the United States Senate bellowing that he had got America into one war, by gad, and was over here to get it into this one. Above all people he had to select Senator Burton K. Wheeler of Montana as his target—Wheeler being the leader of the isolationists and a militant anti-war man. The British Ambassador quickly gave this clumsy old chap the heave-ho. There was an ill-timed request by the British Minister of Blockade that the United States, through angary, seize Axis ships in its ports and turn them over to England or swap American ships for them. That came before President Roosevelt made his vital post-election speech, stating his policy in bolder and plainer terms than ever before. It was premature and gave some stimulation to the various organizations in the United States and the Americas striving strenuously to keep their countries from entering a European war. And another sour note came from Canada when some important Canadian said the United States would surely get into the war. He doubtless meant what he said; but there is but one authority to say whether or not the United States will make war and that is the Congress.

In the United States, and quite generally throughout the Americas, there are outfits headed by important and doubtless patriotic people who want no war. For instance, the American Committee to Aid America by Helping the Allies is one, although strongly for aid to Britain by all steps short of war. Then there's the propaganda of the No Foreign War Committee, which has a rather saturnine implication that it may not be opposed to a civil war. Then there's the Committee for America First, which seems rather superfluous since most Americans were under the impression that Congress was just that.

But there's no doubt that millions of honest and patriotic Americans were swayed by British propaganda. They had seen the King and Queen, either in person or in pictures—and were immensely impressed by the charm of the Queen and the simplicity of the King. Incidentally, that visit, which Neville Chamberlain wanted to cancel, was urged upon the British Government by U. S. Ambassador Joseph P. Kennedy—who later got lambasted for saying his say on returning to his own country. That royal tour in the U. S. and Canada just got under the wire to tie up popular sentiment before the big and bloody show started.

Even the subsequent arrival in this hemisphere of the Duke and Duchess of Windsor did not affect the heart-whole warmth of admiration for Queen Elizabeth in the United States and Canada. The Duke himself is excellent propaganda for Britain when he makes contacts—but he still should have brought at least two kids from the London slums for the duration.

Colonel Lindbergh in his speeches, which have wide audiences, has made for himself, whether he deserves it or not, a reputation as the leading American appeaser. Don't think he has not a large following. Personally, I've detected an anti-Semitic strain in Lindbergh's talks and this may account for his attitude. But it also must not be forgotten that he warned England and the United States of what Germany was doing in building mastery of the air.

Many Americans agree with Lindbergh that the United States might have to save itself by making a deal with the Axis; many Americans, exclusive of the traitorous Bundists and Fascists—and Communists. But it so happens that the chief American doesn't happen to share that view. His name is Roosevelt—the supreme and superb propagandist.

For Roosevelt has made radio the liveliest of propaganda media. It was good enough before he came along; but now it's tops, even excelling the pictures.

Futility of printed propaganda was amply proved when the British made their aerial pamphlet raids over Germany. They might have done much better if, instead of dropping pamphlets, they had dropped current English restaurant menus. This whole idea of trying to translate or proselyte native opinion against a ruling regime by imported printed and spoken propaganda has proved barren unless backed up by the propaganda of action, as the Germans demonstrated in Scandinavia by one of the basest tricks in history when German children, succored by the Norwegians in the last post-war famine, returned as adult tourists to betray their benefactors.

I repeat that radio, as raised to the nth quality by Franklin Roosevelt, is the most effective propaganda. The last election proves it. There was a point in that presidential campaign when Wendell Willkie was zooming to the White House. He was distinctly photogenic—indeed one of the most dramatic pictures in all political history was the press snap of Willkie, bull-rushing in righteous wrath after some hooligan had struck him with an egg in a Chicago depot. His handsome, outraged face made women his sympathizers, and sympathetic women are crusaders—for that matter, any woman is a critic or a crusader of somebody or for some cause. But, on the radio, Willkie, while good, could not compare with Roosevelt. The press campaign against Roosevelt, the whispering campaign against Roosevelt—all fell to pieces when the master took to the microphone.

And Roosevelt is not alone in making radio the supreme medium.

Hitler holds his own millions spellbound, although on short wave he sounds to me like the ocean having hiccoughs. But it took something to get him where he is, and he's got it apparently, at least to German liking. Mussolini sounds to these ears like a tenor off-key, but millions of Italians think otherwise. Stalin I have never heard, and I account that at least one of the minor blessings of a troubled existence.

Churchill is certainly not hard to hear when he talks in his orotund style, and especially when the fatuous Lord Haw Haw attempts to balance his effects. Germany must attach importance to these radio stunts by renegades otherwise it wouldn't short-wave them; but it does seem that since they have a shortage of brass in Berlin they might melt down Haw Haw.

In my own experience I've found the sometimes frightening effectiveness of radio—when you have young people write you how much they are influenced. Of course, there are others who have opposite views. But this observation may be worth something. Of thousands of letters and telegrams I've received, the vast majority have endorsed my pro-British stand—a few, including some from Canada and Britain, who resent fair words for the German and Italian peoples. Then there are the utterly Nazi and Fascist minds who write abuse, filth, obscenity and every foul thing that can get by in the mails, and much that should not. I even had to tell the mail clerk please to deliver my mail personally to me so that my daughter couldn't see some of the insanely malicious postcards; postcards sent to me by violent Nazis. On a balance, if the temper of radio mail is any guide, those who support the Allies are civilized—at least polite. Those who oppose them are merely utterers of vile abuse—according to my mail. That is something of a tip-off to the difference between the two systems—totalitarianism and democracy.

On the radio propaganda has been most unequal as between the two causes; on this continent, at least, it is just one-way—pro-British. And the amazing fact is that the British did nothing to bring this about. I myself have been accused of being in British pay. But far from any British agent paying me a dime, the only contact I had with one (by telephone) irritated me so much that if I hadn't been wholly for his cause I should have taken a crack at it on the air that night.

To me, the unanimous support by American radio commentators of the British, or rather anti-totalitarian crusade, is absolute proof of the basic justice of that cause for human freedom, regardless of the faults of Britain.

Some of the most rollicking abuse I get in the mail or by wire is from those who share my Irish descent and say that I'm a cur, a coward, a mercenary, a varlet. They even telephone epithets. I never answer their letters, but when they phone I always invite them to meet face to face, which they never do, and never let them go without telling them that I have yet to meet on this continent anybody who bellows about the wrongs of Ireland who has ever done a damned thing to set them right.

Then I try to explain how time in its cycles brings about menopauses in national mentalities. For instance: the British people of today would never tolerate a Black-and-Tan invasion of Ireland. Or else, just imagine, seventy years ago there used to be a quip in America that was a cliche, that the only good Indian was a dead Indian. Let anybody try to get away with killing Indians on flight of fancy today and the American people would be in uproar. People change and, at least in the English-speaking world, they change towards the moral law of decency.

Twenty years ago news reel pictures were shown all over this hemisphere of starving children being fed by American Quaker and other committees in Europe. They aroused interest, but not enthusiasm. Today when a picture of European refugee children is screened, the effect is electric. Of course, the fact that they talk, and usually in the most captivating manner, has something to do with this; but there is also a difference between children getting breakfast and children escaping bombs.

This again illustrates the pure propaganda of action, which is by far the most effective.

The Nazis exulted over this principle when they displayed their Bath of Fire picture in neutral countries to show them the terror of their T.N.T. attack on civilians and undefended places. I've seen that picture several times, although it has not been displayed in America in public theatres. Strangely enough, that is because the Germans don't want it, and they own the picture. It is bad propaganda. It may overawe, for the time being, small countries like Denmark and Norway, where it was shown. But in the United States it would have the very opposite effect.

Remember, clumsiness is not a British patent even in this much-mismanaged war. The Germans were getting somewhere with their propaganda in Britain that the poor were suffering; the slums were bombed and the rich or well-to-do in their isolated estates stood much

less chance of injury. Then a bright young Nazi murderer or would-be murderer dropped bombs on Buckingham Palace while the King and Queen were in residence there. That settled that. It was the dumbest act of the war so far as morale-attack goes. The British simply united behind their sovereigns who showed that, like London and as part of London, they could take it.

Here is the new propaganda à la mode: America giving over-age destroyers in trade for British hemisphere bases. Good. Then the Governor of Trinidad or somebody trying to make the Americans take swamp land to reclaim and build at terrific expense. Bad.

The Germans observing with the British a no-Christmas bombing. Good. The Italians bombing Corfu and killing civilians at a religious service on Christmas day. Bad.

All the words that all the sides can write or utter do not affect the opinions they need in their favor so much as one act. Hitler can speak to the mourning-clothed bereaved of the bomb-blat in Munich and movie audiences in America who see the picture, and usually boo his every appearance, are silent and respectful because Hitler appears kindly, human. Then he struts and roars before a Nazi brag-party and the hisses are such that news reel editors get requests or orders from exhibitors to leave Hitler out of the reels.

Propaganda, quite evidently, is the art of making action speak louder than words. It always will.

INVESTMENT ANALYSIS AND THE WAR

GILBERT R. HORNE

Mr. Horne, in an earlier study, considered some of the problems of the small investor in investment analysis.¹ In this article he revises his previous analysis in the light of the present war.

* * *

CERTAIN definitions and concepts must be laid down at the beginning. "Investment" should be distinguished from "Speculation." Speculation involves: (1) the attempt to make a profit out of price changes over a relatively short period of time; (2) a security of the risk of which the investor is ignorant; (3) expectations of the future different from past performance. In investment, the future is considered something to be guarded against. Past record and the present situation are the essentials considered by the investor. A definition of investment may be noted: "An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."² The risk of loss of principal is minimized by investing in the securities of companies that make their financial status known at regular times. Recent balance sheets and income statements are essential in this connection.

Besides *security of principal* and a *satisfactory income*, the investor will want *regularity of income*, and *marketability*. Marketability is satisfactorily obtained only if one holds the bonds and stocks of corporations whose securities are listed on the stock exchanges.

The analysis of a company for investment will logically take the form of: (1) analysis of the general business risk; (2) analysis of the special risk of the particular company considered for investment; (3) analysis of the financial risk of the particular security chosen.

THE GENERAL BUSINESS RISK

In the 1920's certain industries were backward, such as cigars, cotton goods, leather, paper, street railways. Other industries like chain stores, cigarette producers, motion pictures and public utilities were much more prosperous than the average. Analysis should aim at

¹"Investment Analysis," *Quarterly Review of Commerce*, Spring, 1937. The "small investor" is one with from \$10,000 to \$100,000 available for investment.

²Graham and Dodd, "Security Analysis," McGraw-Hill, 1940, p. 63.

discerning which industries seem to be in a favorable position, and which seem to be retrogressing. The competitive situation, growth or decline in demand, and any imminent factors must be analyzed.

The war and war-time legislation have had a considerable effect on the general business risk of many industries, at least in the short run. The question of what weight to give the influence of war demand, or war-time restrictions, in analyzing a particular risk is a difficult one. We have here a speculative element that the investor may find difficult to minimize. That is: if the war is short and the totalitarian powers overthrown, the peace-time industries with good past records may be the proper investment field; but, if the war is to be long and the outcome uncertain, the prospect would be for more or less permanent importance of the "war-babies." Any decision reached on these two possibilities is essentially speculative. It would seem that the only relatively "safe" course for the investor would be to pick industries which have both war- and peace-time importance, *e.g.*, iron and steel, radios, automobiles.

The presence of restrictive taxes on certain industries, stigmatized as "non-essential," may also be important in the general business risk, at least in the immediate future. At present, the efforts of the government to divert production to war-time purposes has involved high taxes on certain commodities. The sales of companies whose specialty is peace-time demand are likely to be less in the near future. While the investor must adopt the long-term viewpoint, in view of the uncertainties of the present world situation, it would be well to avoid the securities of companies in any industry not adaptable to war- as well as peace-time production.

Then, there is the question of industries producing chiefly for export trade. The uncertainties here are largely a product of the Second World War, although before the struggle began they were present in the autarchic policies being pursued by many countries. Industries like meat packing and flour milling, and certain in the metal mining field find their European markets limited to Great Britain. The automobile industry is faced with control of imports of non-essentials in its former Empire markets. In some of these cases (like automobiles), decreased foreign demand may be offset by the increase in domestic demand for war purposes. Also, in some industries the increased domestic income because of war-time activity may, unless more drastic governmental restriction of peace-time consumption occurs, offset the decreased foreign demand. Once again, the investor must minimize the specu-

lative element by attempting to pick industries that will hold their own whether the future results in permanently decreased export outlets or not. That is, he must pick industries, like automobiles and textiles, where the decreased export demand and decreased peace-time production will be offset by increased war-time activity. At the same time, he has protection for the time when cessation of hostilities takes place by having securities in industries important in times of peace.

Finally, in picking industries, the investor must follow the important maxim of *diversification*. It is all-important, now more than ever, that the securities in his portfolio be carefully diversified by industry.

Information on the general business risk is available in the various trade journals of industries. Through the trade publication of an industry the investor can gain a picture of the current and prospective state of the industry. The publications of the Dominion Bureau of Statistics on the various industries, and the "Monthly Review of Business Statistics," published by the Dominion Bureau, will also aid the investment analyst.

THE PARTICULAR BUSINESS RISK

Having found industries with favorable current and prospective situations, it is necessary to make the difficult choice of specific companies. Good management is always perhaps the most important consideration. Objective tests on this point are always difficult. The best proof of good management is usually a good past record compared with that of other companies.³ The investor has to guard here against the management having been already discounted in the price on the stock market.

The warning must be made that the investor should not make the error of so many of the buyers of securities in the late 1920's of projecting an increasing *trend* of earnings into the future. Figures for average earnings of the last five or eight years will give an indication of the future of the company, particularly if coupled with consideration of the nature of the industry. But, because a concern has shown increased earnings year after year, one should not be led to extend the trend into the future. The result of the tendency of security purchasers to project trends into the future in the era before the stock market crash of 1929 was that common stocks of companies with a rising trend of earnings were overvalued, selling at a very high price not justified by the existing

³The chief sources of information for quantitative data on the individual companies were listed in the earlier article. *Quarterly Review of Commerce*, Spring, 1937, ff. 105.

earnings, and the common stocks of companies, whose earnings had been declining, were undervalued in the stock market. So, on the whole, the investor should buy on the basis of past and present earnings, having duly considered the management and the general business risk of the industry.

Mr. Scobell's prize-winning essay on "Investing \$50,000 in War-Time," conducted by *The Financial Post*,⁴ suggested putting a certain amount in "Growth Stocks." We are up against a very difficult question here. Taking the period prior to the 1920's, it was shown in a book published in 1924⁵ that a well-diversified portfolio of common stocks held over a period of about 25 years would have yielded a better return than the purchase of good industrial bonds, as well as capital appreciation. But, that period was one of general business growth, and practically any good company in an essential industry shared in the general growth. Today, it is difficult to say that we are in for a general business growth similar to that of the past, when we consider autarchic tendencies in the world, reduced immigration, the decreased population growth, etc. And it would seem rather rash to conclude that because a company's earnings have been increasing, this increase will continue. In so far as competition is operating, the curve of increase for any individual company should tend to flatten out. Another argument was that in the 1920's *everyone* bought stocks on the trend principle, the result being that stocks of companies with increasing earnings sold at twenty and thirty times earnings. Inspection of the present stock market indicates that no such bull sentiment has set in as yet with respect to, for example, Crown Cork and Seal and Fanny Farmer, both of which have shown a rising trend of earnings. As of December, 1940, these stocks were selling at about ten times earnings.⁶

Decision on whether to purchase the securities of such companies would have to invoke consideration of the stability of the industry in which these companies are functioning, unless we can, after due investigation, assert with some scientific justification that the company is one subject to growth. We have to analyze closely the industry, the company, and the management. It will be noted that we have avoided all reference here to the war as a long-time trend factor. The war can hardly be considered to have introduced any changes in long-time trends unless we believe (speculatively) that the future holds continuous war;

⁴See *Financial Post*, Toronto, issues of November, December, 1939, January, 1940.

⁵Edgar L. Smith, "Common Stocks as Long-Term Investments."

⁶The reason for failure of the prices of such stocks to rise may be the excess profits tax that may fall heavily on concerns whose "normal earnings" in the past were much lower than at present.

"war-babies" in Canada will be up against the question of markets at the war's end, regardless of the outcome of the conflict.

In examining the published figures of companies, the question of validity of the earnings figure arises. Here the lack of adequacy in many corporate reports puts the investor at a definite disadvantage. Many corporations publish no figures for sales and operating expenses, but begin their "profit and loss statements" with net profit. Sometimes the amount of depreciation charge is indicated, and sometimes not. Many concerns utilize varying depreciation charges to minimize unfavorable operating results. Lack of uniformity in corporate reports may force the careful investor to rearrange items. At any rate, it is important that the investor, in the face of non-standardized accounting procedure, verify carefully the net income figure, eliminating such items as non-recurrent profits and losses, and observing the behavior of the depreciation charge in relation to depreciable assets.

The investor should not stop with an analysis of the statement of earnings. He should also analyze the balance sheet. The book values of the various types of stocks are important. The working capital position, and forthcoming financial needs (such as, to meet maturing bond issues, or note obligations) may be studied. Finally, the reported earnings figures may be checked by the balance sheet.⁷ Ratio analysis may also be useful here as indicating weak and strong points and trends.

FINANCIAL ANALYSIS

The risk of the particular security chosen must be analyzed. Reference must be had to the prior claims on the income stream of the company. The financial risk is particularly important when one is buying a junior security preceded by one or more senior issues.

THE INVESTMENT PORTFOLIO

The most obvious need, always present, is for a *hedge* against the possibility of either inflation or deflation.⁸ This need is even more important at the present time. A sudden end of the war might bring deflation, and a long-drawn-out conflict can hardly result in anything but inflation. While it is true that the Canadian Government is taking steps to avoid such a development as inflation, the investor cannot be certain of the result of these efforts. At the same time, it is reasonable that the investor should keep a certain proportion of his principal in

⁷For the method of doing this, see Graham and Dodd, *op. cit.*, pp. 619-20.

⁸The terms "inflation" and "deflation" are used here to represent respectively a rapidly rising price level and a rapidly falling price level.

liquid form so that he may take immediate advantage of any definite trend, inflationary or otherwise. Thus, logically, our investor's portfolio would have the following parts:

- (1) Perhaps 20 per cent. of the principal in the form of cash (*i.e.*, savings deposits, readily convertible into cash), or in short-term government or other high-grade bonds.
- (2) About 40 per cent. in fixed value investments, specifically high-grade bonds and gilt-edged preferred stocks.
- (3) About 40 per cent. in common stocks. By this means, the investor will be protected against monetary developments.

It would perhaps be useful to discuss certain aspects of investment in the different categories of securities.

BONDS

The bondholder, like all other security holders, must analyze closely the earnings record of the company, since it is out of net income that the interest, and eventually the principal, must be met. Balance sheet analysis must verify the ability of the issuer to meet *all* its obligations, with particular reference to depression experience. It must always be remembered that the *safety* of a bond is not based on the lien, but on the *ability to pay* of the concern. As a secondary consideration, however, the nature of the lien may be investigated.

Certain of the contestants in the above-mentioned *Financial Post* war-time investment contest recommended the purchase of bonds selling at a discount (as well as cumulative preferred stocks, the dividends on which are in arrears), on the ground of the likelihood of "capital appreciation" as war-time prosperity appears. Such a course on the part of the investor would, of course, be speculative. The investor should seek the bonds on which the interest obligations were met in bad years, and, in so far as possible, that did not decline very greatly on the bond market. This latter quality may be hard to find, since the industrial bond market reflects the varying risk in much the same manner as does the stock market.

In any case, it is very important not to sacrifice safety for yield. Safety, as well as patriotism, will dictate a certain proportion of government obligations, but in this connection the investor must keep in mind the fact that in the event of a rise in the interest rate (likely, if the behavior of 1914 to 1918 is taken as a criterion), the government bonds will experience a greater decline than industrial bonds.⁹ If the

⁹This is, of course, due to the relative lack of the risk element in government bonds, as contrasted with industrial bonds.

investor is a business man, and willing to take more risk than our hypothetical investor, it would certainly be much better for him to take his risk by buying common stocks with the possibility of great enhancement in price, rather than by buying bonds selling at a discount, or high-yield risky bonds.

PREFERRED STOCKS

The typical preferred stock represents an unattractive *form* of investment contract. Its principal value and income return are strictly limited, and there is no way of enforcing the claim to the payment of principal or income. Preferred stocks should, however, find a place in our investor's portfolio, if the specific security meets certain tests. The earnings must ordinarily adequately cover the preferred dividend requirement with such a margin that there will be little likelihood of the directors of the corporation passing the dividend. If severe requirements are imposed, there will be relatively few preferred stocks eligible.¹⁰

Some examples of Canadian preferred stocks that seem to meet the investment tests would be McColl Frontenac (although preceded by bonds) cumulative preferred, Ogilvie Flour (with no bond precedence, and which has earned its preferred dividend from 1932 to 1939 by more than five times each year), Associated Breweries (with no bond precedence), Cosmos Imperial, etc. Further investigation would probably disclose some others. The main thing is that each preferred stock should be chosen carefully on its past and present performance.

COMMON STOCKS

Purchase of common stocks provides the investor with an opportunity for capital appreciation with business expansion, as well as with a hedge against inflation. It might be noted that convertible bonds and convertible preferred stocks (as well as participating preferred), if carefully chosen, combine the aspects of fixed value security, and common stocks. The investor must, however, scan closely the terms of convertibility.

The technique of investing in common stocks should involve (as it did in the period before the First World War) much the same considerations as those in the buying of industrial bonds. The investor

¹⁰Professor Rodkey ("Preferred Stocks as Long-Term Investments," University of Michigan Press, 1932) found that preferred stocks *preceded by bond issues* were not satisfactory media for investment. But industrial preferred stocks *not preceded by bonds* appeared "to meet the most exacting investment tests." He claimed that diversified investment in such issues would give greater safety and income than that achieved by railroad or industrial bonds.

should look for: (1) a stable and adequate earnings record on the part of the company; (2) a stable and established dividend record; (3) a satisfactory backing of tangible assets. The era of the bull market culminating in 1929 involved only the following maxim: "The value of a common stock depends entirely upon what it will earn in the future."¹¹ As mentioned earlier, the trend of earnings cannot be scientifically projected into the future. The analyst must carefully investigate the general position of the company and the industry, before coming to any conclusion as to the significance of an increasing or decreasing trend of earnings on the company.

On the score of dividend rate, the investor should attempt to find companies with fairly regular dividend policies, and, if possible, one that is not in the habit of abusing the discretionary power of declaration of dividends.

The third consideration involves the computing of the tangible book value of the common stock. This is comparable to a business man computing the net worth of a company in which he wishes to invest, and is as logical a procedure for the investor as for the business man considering the purchase of a business. This approach is, however, frequently lost sight of today. For example, as of the end of December, 1940, the common stock of Canadian Westinghouse was selling at about \$45 a share, with a tangible book value of only about \$28. The earnings per share on this stock was about \$1.52 a share (1939) and the dividends \$1.50 (1940). A price so much higher than book value, representing a price/earnings ratio of 29, and a yield of 3.3 per cent., means considerable discount of future earnings.¹²

In conclusion, it should be recalled that the investor's portfolio must not be regarded as a static thing, but must be subject to constant supervision. While we buy from the long-term point of view, signs of unfavorable trends in the industry, and in the individual company, must be watched for, and the securities of declining companies and industries eliminated. This means the requirement of adequate up-to-date information on the company and the industry. The war operates as a short-term (we sincerely hope) factor increasing the earnings of some

¹¹Graham and Dodd, *op. cit.* p. 351.

¹²The *Financial Post* (August 19, 1939) listed some 88 preferred and common stocks of 67 Canadian companies that were able to pay dividends from 1929 to 1939. Analysis of the industries involved and of the individual companies would undoubtedly yield securities that would be very satisfactory components of our investor's list; that is, when price/earnings ratios, yield, and book values have been computed, and with all other relevant factors considered.

industries, and decreasing those of others. The difficulty of airplane and specifically war securities is that the stock market has probably already discounted well in advance the prospective war earnings. Thus, it is probably better that the investor keep in mind his normal investment tests, and apply these to the companies being analyzed. The importance of a hedge against either inflation or deflation cannot be underemphasized.

VOCATIONAL REHABILITATION AND WORKMEN'S COMPENSATION

J. CAMPBELL

In existence only since 1938, the Rehabilitation Department of the Ontario Workmen's Compensation Board presents a record of real achievement. In this record and in the spirit of co-operation shown by individual firms, Mr. Campbell, Acting Director of Rehabilitation, sees a promise of better times for the casualties of industry.

* * *

FOllowing the Industrial Revolution of the early nineteenth century the vast changes taking place in processes of manufacture created a need for legislation to protect the worker, no longer able to afford the cost of equipment necessary to ply his trade. Control of such equipment had passed to the wealthy who could, if they wished, drive a hard bargain with those who sought to use it. Relationship between employer and employee was often very unhappy, but as the century advanced this relationship gradually improved as successive governments in industrial countries passed laws designed to improve the lot of the worker without unduly burdening the employer. The great hardship caused to workers and their families by industrial accidents was soon realized. It was not until much later, however, that thought was turned to providing some sure means of protection for all those affected and the need for Workmen's Compensation was recognized. Towards the end of the century, we find greater consideration being given to this important question and legislation governing it began to appear. Acts were passed in Great Britain and in Germany. The British Act assumed its present form in 1906 and a few years later the question received considerable attention in the United States of America. The Ontario Act, on which most other Canadian legislations are modelled, was passed in 1914 after exhaustive study of the needs of the Province and systems adopted elsewhere. The success of its operation over the past 25 years has shown it to be one of the finest pieces of legislation of its type in the world. Employers and employees of the province know all too little of this Act—its humane conception and the excellent protection it provides.

Since its inception its benefits have been greatly extended and when deemed wise, additions have been made to meet obvious needs.

One such important addition was made in 1924 when Section 52, dealing with the question of Rehabilitation, was added. This Section reads as follows:

REHABILITATION

"To aid in getting injured workmen back to work and to assist in lessening or removing any handicap resulting from their injuries, the Board may take such measures and make such expenditures as it may deem necessary or expedient, and the expenses thereof shall be borne, in Schedule 1 cases, out of the accident fund, and in Schedule 2 cases by the employer individually, and may be collected in the same manner as compensation or expenses of administration; provided that the total expenditure under the provisions of this section shall not exceed \$100,000 in any calendar year."

Under the Workmen's Compensation Act a worker suffering an accident while under the Act receives full compensation (two-thirds of his average earnings) during the period of total disability, provided this is over six days, and all necessary medical aid. Where it is indicated, everything possible is done to obtain maximum recovery and to speed it up by providing physio and occupational therapy treatment. For this purpose the Board operates its own clinic, staffed by qualified graduates and supervised by a medical man who has specialized in this work. If permanent partial disability results from the accident, the claimant is entitled to an award based on his disability rating and his former earnings. If the disability is greater than ten per cent. this award is made in the form of a monthly pension for life. The intention is to give the handicapped worker some permanent compensation for estimated probable loss of earnings which he must supplement by his finding suitable work. A study of any group of these pensioners will clearly demonstrate the need for the Rehabilitation Provisions of the Act.

Prior to 1924, the return to Canada of the many casualties of the Great War had directed public attention to the necessity of rehabilitating these men. Splendid work was done in this connection. The provision whereby the Dominion Government reimburses the Workmen's Compensation Board for the total cost of any accident to a war pensioner with twenty-five per cent. war disability or over, helped greatly in this work. But what of the even more numerous casualties of Industry? What success did they have in earning the necessary amount to supplement their disability pensions?

Very many of those who receive pensions are found on investigation to be living in comparative poverty, entirely dependent upon their pensions and whatever can be obtained from Relief or public charity. Others are found to have overcome their handicap and have little if any loss of earnings. Their stories reveal courage and ambition and are a tribute to the sympathetic understanding of those who have given them a chance in life. We find a man with no hands who taught himself to harness a horse and from peddling fruit has graduated to driving one of the trucks in his own cartage business. We find another similarly handicapped making a living as a gardener, a man with both legs off employed as a draughtsman and a one-armed man operating a steam shovel. Further study indicates that the success of these men is the result of individual initiative, background and opportunity provided. While we cannot supply the first of these (though friendly encouragement given soon after a serious accident can help a lot), there is no doubt that many could have been successful had they been given a chance or had received some training to equip them for suitable work.

Fortunately, many firms have considered themselves morally responsible for the provision of suitable work for their own injured. Among others, the Railways have done splendidly in this connection. Indeed, one of them has a Rehabilitation Committee that meets regularly to consider means of providing work for their disability cases. Where an interest has been shown in this problem one of the most surprising discoveries is the variety of jobs that can be undertaken by disabled men. As an illustration of this point, it was discovered that the three hundred and forty-one one-armed men rehabilitated in the year 1935 in the United States of America went to one hundred and thirty-four different occupations. Most of the handicapped are capable of adapting themselves to conditions and finding some way of making a living but their greatest handicap is not always their disability. It is often the attitude of many employers towards them. To overcome this attitude is the first essential of any successful scheme of rehabilitation.

It is obvious that if—after receiving the best medical attention available, compensation, the most suitable type of artificial appliance where necessary, and an allowance for permanent partial disability—a worker is barred from Industry, the purpose of the Workmen's Compensation Act has not been fulfilled. If the casualties of Industry are unable to obtain productive employment there is a tremendous waste of human resources and these people become wealth consumers rather than wealth producers.

Since the passing of Section 52 many have been returned to gainful employment through the rehabilitation efforts of the Workmen's Compensation Board. Where a man is unable to return to his former work many have been able to take over other duties after receiving assistance during a period of training, without the necessity of going to another firm. After having been given a period of training at technical school or business college, many more have been placed. Recognizing the value of such effort and what had been previously accomplished, a Rehabilitation Department was established in 1938 and this department now devotes its entire time to attempting to solve the problems of Rehabilitation.

The employer can help to solve this problem in many ways. There is a regrettable tendency on the part of some firms to forget about their injured men until, after convalescence, they are suddenly confronted with the task of trying to place them. If this question were considered shortly after any accident that will result in a fairly obvious degree of physical impairment it would be much more easily solved. The realization that a job awaits him on reaching maximum recovery generally has an excellent effect upon the worker's morale, often prevents the development of neurosis and tends to cut down the period of disability. Where a change of occupation will be necessary this period can often be used to acquire, through training, any necessary additional knowledge. If such a policy were generally adopted and surveys made, employers would be amazed at the number of operations that can be performed in most plants by handicapped men. So many firms, when approached regarding a rehabilitation problem, declare that they have no place on their staff for anyone disabled, but when operations are given closer study they find many suitable openings. A firm recently called upon regarding the re-employment of one of their men who had had his right arm amputated above the wrist stated that as he had spent many years in their employ they would like to place him but there was no job in their plant that could be performed by a one-armed man. A trip through the plant to demonstrate this contention revealed not one but several jobs that were suitable. The firm was pleased to make this discovery and the man is now at work gauging saw bits and doing it efficiently.

One of the large firms of automobile manufacturers who made a survey of all their operations made the following startling discoveries: In the plant there were 7,882 jobs. Of these, 949 were heavy; 670 could

be performed by legless men; 2,637 could be performed by one-legged men; 715 by one-armed men; 2 by armless men and 10 by blind men.

If each firm of the province would make a conscientious effort to re-employ its own injured the problems of vocational rehabilitation would be greatly reduced. Quite apart from the humane side of this question, there are many advantages to Rehabilitation. No firm is so all-powerful that it can afford to ignore public opinion. Happy relations between employer and employee help greatly in producing goodwill and the firm that does not recognize this is neglecting one of the best forms of advertising. Rehabilitation of those injured in their employ contribute to and should be an essential part of any program designed to promote healthy co-operation between employer and employee.

Much has been done to help conserve the great natural resources of our country. Surely the conservation of our greatest natural resource, our labor capacity, is of even greater importance. At a time like the present, when industry is faced with the necessity of greater and greater production, the folly of neglecting any possible source of necessary skilled or unskilled labor is obvious. With increased production, the value of manpower becomes greater and it is important that, with the mounting toll of industrial accidents, everything possible be done to return as many of the victims as possible to productive employment. The disabled man who can perform a certain operation is often a more valuable employee than many not disabled. As he is very dependent upon his job he is a more stable employee and he is often more conscientious in the performance of his duties. Then, too, he has an added incentive to be loyal to his firm. For a firm or its doctor to turn down a man who is quite capable of doing the job for which he has applied simply because he has some physical disability is obviously not good policy. Of course, there will always be many who, because of age, lack of adaptability or education, cannot be absorbed, but if this number is kept to a minimum something worthwhile will have been accomplished.

As previously indicated, there is a sustained effort to make it easier for industry to absorb its injured by providing assistance during a training period if such training will enable a firm to employ a man in other than his former capacity. If a short training course at technical school or business college will help, this is sometimes granted. Such courses are only provided where justified by educational background. As a general rule, business training is only advisable when the claimant is quite young and has some high school backing. In other circumstances the removal from the hurried atmosphere of the shop to the

comparative ease of the classroom is not always conducive to maximum effort and as on graduation the claimant has often to compete with people much younger than himself his placement is difficult. However, continuation of a course is always made to depend upon the application and progress of the individual so that there is considerable incentive to work. In the past year many have been guided into the classes being conducted throughout the Province in trades necessary to the War Industry and have been placed by this means. In these cases, the only assistance necessary is a small living allowance for the short duration of the course. However, the most successful form of rehabilitation is always the return of a man to his old firm in some capacity. With an ever-increasing knowledge of the requirements of industry and having a detailed history of a man's past experience, it is often possible to advise where his services might be of value. A number of firms have expressed interest in the work being done and when advice has been sought regarding a specific problem have volunteered to provide employment with or without training. This augurs well for the future as it will obviously be difficult for many small firms to absorb certain of their own men.

It has been argued that the hiring of disabled men adds to the accident hazards of a plant. Naturally, in many plants there will be places where this will be the case but there is generally some location where they can be put to work without risk. While there are no figures available for Canada, wherever such statistics have been compiled it has been shown that the accident frequency among men previously disabled is below the average.

A few examples of successful rehabilitation might help to illustrate what is being attempted:

A young man, married and with a family, loses his left arm below the elbow while following his occupation of steel rigger. While barred from this work, he is ambitious and worried about his family's future and is determined to succeed. By making arrangements with the firm whereby his wages are paid during a short training period they are able to employ him as a stock keeper and as he becomes more proficient in the use of his artificial appliance he assumes the duties of First Aid man.

Another loses a leg while mucking in a mine. The mine ceases operation but provided with slight assistance during the earlier unproductive period of a barbering apprenticeship he acquires a new trade.

Given a short business course, another mining man who has lost an arm becomes a proficient member of the office staff. After similar training, another who lost all the fingers and part of the thumb of his right hand while working for a tannery obtains work in a government office. With wages paid during a training period a one-legged miner becomes an assayer. A truck driver with an injured spine becomes a welder, and a boy aged sixteen, who has all fingers of left hand off at second joint, is assisted to complete a previously interrupted course in drafting. Many more could be mentioned.

The cost involved has been trifling, but it is impossible to estimate the saving in human suffering. It is impossible to estimate what these cases might have cost the nation had they, because of lack of assistance, become dependent upon the community. Instead, each is a wage earner—a creator of wealth making a definite contribution to the state. Industry has gained many useful men and a tragic waste of human resources has been avoided.

Though much has been done, this work is only beginning and as it is so definitely in keeping with the principles for which the nation is fighting, it is important that it prosper at the present time. With the spirit of co-operation shown by industry, future success is assured and thus the ideals that gave rise to the Workmen's Compensation Act will be furthered to the benefit of humanity.

THE WAR AND CANADIAN AGRICULTURE

W. M. DRUMMOND

Mr. Drummond of the Department of Agricultural Economics, Ontario Agricultural College, analyzes the effects of the war on Canadian agriculture. In the face of rising costs of production and inelastic prices of farm products, what is the answer to the farmer's problem?

* * *

THE effect of the present war on the demand for farm products has been very pronounced and very varied. The changes in the demand situation have been due to several factors all directly associated with the war itself.

THE WAR AND EXPORT DEMAND FOR FARM PRODUCTS

One important development has been the serious reduction in the number of countries to which Canadian products could be sent. Germany's declaration of war against us, the rapid fall of Denmark, Norway, Holland, Belgium and France, and the rigid enforcement by Britain of the European blockade have eliminated the continental European countries from the list of export outlets for Canadian farm products. While increasingly intensive economic nationalism had greatly reduced European imports of our products prior to the war the amounts taken by each of a number of countries when added together made up a very considerable total. This was particularly true in the case of wheat and to a less extent in the case of coarse grains and various other products. In the months of August and September 1939 twelve continental European countries imported 9,456,958 bushels of Canadian wheat and wheat flour. In the same months of 1940 not a single bushel was taken by any of these countries.¹

A further reduction in market outlets has been caused by the growing scarcity of shipping space and the increased cost of ocean shipping. An outstanding illustration of this is the virtual loss of the rapidly developing and large scale Argentine market for seed potatoes from the Maritime Provinces.

A second war-time development has been the reduction or complete elimination of the British market for several of our farm products. While our already-limited exports of feed grains, hay, dairy cattle and fresh beef have been thus reduced, the commodities most affected are

¹Monthly Review of the Wheat Situation, November 1940.

fresh apples and other fresh fruits, dressed poultry and tobacco. When one remembers that Great Britain constituted the only worthwhile foreign market for these goods the seriousness of this change becomes obvious. It is particularly so in the case of flue-cured tobacco and apples.

During the first four months of 1939 the United Kingdom took 11,676,857 pounds of Canadian tobacco as compared with only 4,268,124 pounds² in the corresponding period of 1940. In August last she decided not to purchase any of our 1940 crop. Prior to the war Canada had come to depend on exporting in the neighborhood of half her apples to the United Kingdom. The outbreak of war, however, necessitated curtailment of the normal movement of fresh apples from Canada, and, by agreement with the British Government, the total exports to the United Kingdom for the 1939-40 season were limited to 1,350,000 cwt. (112 pounds), which was 50 per cent. of the average export for the two previous seasons. At the conclusion of this contract it was announced from London that no fresh apples would be imported from Canada during the 1940-41 season.

While Great Britain, in adjusting to a war economy, has found it necessary to reduce imports of certain of our agricultural products, she has likewise felt it desirable to import an increasing amount of several other commodities. There are two main reasons for her action in this regard. The first is that many of the sources from which the United Kingdom obtained supplies are no longer available to her. This is particularly true of bacon, eggs, and certain fruit products, a large part of which were previously obtained from continental European countries. The second reason is that a number of products are particularly suited to war-time conditions, being easier and cheaper to transport, store and preserve, and give more actual food value per dollar spent. Some of them, such as wool, flax or soya beans, are demanded in special or extra amounts for purely military purposes. All such commodities, whether used for food or as raw material for military industries, have what might be called a special war-time demand. The list of these products, in addition to those just mentioned, include bacon, canned meats, cheese, condensed milk, milk powder, honey, dried apples, dried vegetables, canned pears, peaches and apples, canned tomatoes and peas, jams, jellies and preserved fruits, fruit juices and syrups, dry and baked beans and canned pork and beans, tomato and other soups, oatmeal and rolled oats, red clover seed, alfalfa meal and eggs.

²Monthly Report of the Trade of Canada, April 1940, p. 41.

While the list is quite imposing and while British import increases have been particularly marked in the case of bacon, cheese, condensed milk, canned fruits, canned tomatoes, canned meats, dried apples and eggs, the increased demand is in most cases more apparent than real. The fact is that the pre-war British imports of many of these goods was so small as to be almost non-existent. This means that, while the percentage of imports may be greatly expanded, they may represent a very small percentage of the amount produced. It is true, for example, that we have recently sent several times as many eggs as formerly to the British market. It is equally true, however, that our 1940 exports represented only two or three per cent. of our total production. Moreover, while the added exports of many of these commodities have been of substantial value to the particular producers concerned, the sum total of additional returns accruing constitute but a small fraction of the total value of Canada's agricultural production.

Of the commodities listed above, there are at least two or three to which these last statements certainly do not apply. The outstanding exceptions are bacon and cheese and, to a lesser extent, dried apples and condensed milk. Prior to the war Britain was prepared to take as much as 280,000,000 pounds of bacon and hams per annum although Canada had never sent more than 200,000,000 pounds. During the first year of the war the British Ministry of Food imported about 330,000,000 pounds and has agreed to take 425,000,000 pounds between October 1940 and 1941. In the case of cheese, pre-war annual exports were in the neighborhood of 70,000,000 pounds. During the 1940 cheese factory season the Ministry of Food agreed to take ninety million pounds and two months ago signed an agreement promising to take all the cheese we can possibly send in 1941 with a minimum delivery of 112,000,000 pounds.

THE WAR AND DOMESTIC DEMAND FOR FARM PRODUCTS

In addition to the above-mentioned changes in the export demand situation there is the improvement in our domestic demand. The increases here are somewhat difficult to measure inasmuch as they are gradual in character tending to increase as our industrial war effort gathers momentum. Moreover, being the direct result of increased consumer purchasing power, they did not take place until reasonably full employment had gotten under way. However, there can be no doubt that at the present time our domestic demand for agricultural products as a class is considerably greater than at any time in recent years. In this connection, it is worth noting that the increased demand has not applied equally to all products. Undoubtedly the increase in per capita

consumption is far more marked in the case of butter, meats, and fresh fruits and vegetables than in the case of wheat bread or potatoes. Generally speaking, consumption is expanding most rapidly where the article concerned is something other than what Canadian consumers have come to regard as absolutely necessary parts of the diet.

Before leaving this section reference should be made to the recent or current demand stimulus which is accompanying the development of the United States defence program. Thus far the increased U. S. demand has affected only one important agricultural item, *viz.*, better-than-average milch cows in the near-freshening stage. Due to a significant drop in the U. S. hog population plus the rapidly expanding consumer purchasing power in that country, American hog prices have recently made rapid advances. Should this movement continue, the exporting of Canadian hogs to the U. S. may shortly be found feasible.

HOW THE WAR HAS AFFECTED SELLING PRICES OF FARM PRODUCTS

It is natural to expect that changes in demand of the kind and magnitude indicated above would be accompanied by very considerable changes in the prices paid for the various commodities. In the case of some products such price changes have in fact taken place. Where they have not (and this is true of most of the more important commodities) it is due to the occurrence of other fundamental changes which have tended to counteract the influence of the changes in demand. A few illustrations will serve to indicate what has actually happened.

Wool: The special war-time demand for wool has been reflected in a virtual doubling of raw wool prices since shortly after war broke out. It was known from the start that wool would be wanted in greatly increased amounts. It was almost equally obvious that the countries able to supply it were few and also that its production is something that cannot be rapidly expanded. Possessed of this knowledge, the British Government made a contract with Australia and New Zealand a few days after war was declared. This contract guaranteed to Britain the entire wool clip of the two countries mentioned for the duration of the war and a year thereafter and at a price that was not only fixed but made high enough to encourage production expansion. Concurrent with this arrangement, the price of unwashed wool in Canada was fixed at about 22 cents a pound, where it still remains.

Wheat: The price of wheat has varied only slightly from the levels ruling just before the war. During a three-week period in September 1939 the price advanced rapidly as the result of a speculative splurge.

Following that period the price promptly receded when supply and demand conditions showed the rise to be unwarranted. The Argentine and U. S. crops turned out to be larger than anticipated, while European demand was only normal, the European countries having previously laid in large reserves in anticipation of the war.

During the early months of the war the democratic importing countries, including Great Britain, tended to buy from so-called neutral sources with the result that orders for Canadian wheat were greatly reduced. Since early 1940, however, a larger-than-usual percentage of Britain's requirements has gone from Canada. The trouble now is that Great Britain is practically our sole foreign outlet, whereas Canadian supplies on hand are far greater than ever before.

At the beginning of the present crop year (August 1) the carry-over was 273,086,845 bushels. To this has since been added the record crop of 547,179,000 bushels.³ Even if Britain were to take all of her wheat imports from Canada, she would require years to use up our present surplus. In the meantime, the Canadian price is being supported by the Federal Government guarantee of 70 cents a bushel basis No. 1 Northern wheat delivered at Fort William. Were it not for this guarantee plus Britain's increasing inability to bring wheat from Australia and the Argentine because of transportation obstacles plus the now complete inability to secure any from the Balkan countries, there is no telling at what level our wheat would now be selling.

Hogs: Despite the greatly increased demand for our bacon, the price of hogs was only slightly above the pre-war level during the first year of the war, while the last two months has seen it considerably reduced. The reasons are as follows: so long as Canada is unable to more than fill the export quota granted by Britain her hog prices must tend to correspond with the price paid for the product exported; if supplies exceed the quota plus the quantity that can be sold at home at the export price hog prices will fall below the export price level.

In October 1939 Great Britain contracted to take 280 million pounds of Canadian bacon and hams during the year ending October 1940 at a fixed price per pound. At that time Britain's general policy was to pay a price as nearly equal as possible to the price paid for supplies received at the time war broke out. The large Danish and other European sources were still open to her, while large United States supplies were available and could have been obtained at considerably less than current British import prices.

³Monthly Review of the Wheat Situation, December 1940.

By October 1940, when the second Canadian-United Kingdom bacon contract was made, several things had become clear. For one thing, it was obvious that Britain had to economize when using her foreign exchange. In the second place, it had been decided that, after all, consumption of bacon could be reduced far more than that of some other commodities such as bread, milk, cheese and fresh meat. Again, it had been discovered that a large part of the poorer British consumers would not be able to buy even the low ration of bacon permitted unless the price were kept at a lower level than that then ruling. Finally, there was ample evidence that Canada was in a relatively weak bargaining position because of her large existing and probable supplies. The expansion of our hog production, which was well under way before the war broke out, has increased greatly during 1940 and gave every indication of much further expansion in 1941. For these reasons the British Ministry of Food agreed to take a much larger quota during the year ending October 1941 but at a very considerably reduced price. Since the conclusion of this new contract hog prices in Canada have averaged at least 50 cents a hundred less than previously.

Cheese: In the case of cheese, it is true that the improved British demand caused the Canadian price to rise from around 11 to as high as 19 cents a pound between October 1939 and April 1940 and also that since the latter date the price has been fixed at not less than 14 cents f.o.b. the port at Montreal. However, the few months during which the real price advances took place were precisely the months of the year in which comparatively little cheese is produced in Canada. The price of 14 cents fixed in May last and which applied throughout the 1940 season of major production has been of far greater benefit to our farmers than the somewhat higher prices which prevailed during the winter of 1939-40.

Late last autumn the British Ministry of Food agreed to raise the price to 14.4 cents and this is to apply until the end of the 1941 production season. Just recently our Canadian Government has indicated its intention to supplement this by paying a bonus of .6 cents a pound. If and when this is done, the price of cheese will be 15 cents f.o.b. Montreal. In addition, the premiums which were being paid by our Federal Government prior to the war, 1 cent per pound for cheese scoring 93 and 2 cents for that scoring 94, are being continued.

It is clear, therefore, that cheese prices are higher than before the war and that this is due to the increased demand. This is especially significant inasmuch as a higher price for cheese tends to bring about

a rise in the price of all other dairy products. Such a rise has recently occurred in respect of butter and concentrated milk and is in process of developing in the case of whole milk. The other noteworthy feature of the cheese price rise is that the British Government has been influenced in determining the price to be paid to Canada by the prices previously agreed upon with New Zealand and Australia. The general aim has been to keep the prices paid to the various Empire countries in reasonable alignment.

Apples: The situation with respect to apples has been somewhat varied. In the 1939 season the Canadian crop was considerably above the average. On the other hand, half of the British market was eliminated along with the quite considerable market that had been built up in Germany and other European countries.

In the 1938-39 season Canada shipped 137,566 boxes of British Columbia apples and 180,260 barrels of Nova Scotia apples to eight continental European countries, the major portion going to Germany.⁴ With this supply-demand situation it was inevitable that apple prices should decline. The decline was modified considerably, however, by the development of a sizable market for dried apples in the United Kingdom, by the production of over a million gallons of apple juice as compared with sixty thousand gallons the year before, by the stimulation of consumption in Canada through advertising and merchandizing campaigns financed by the Agriculture Supplies Board, by government assistance in the export of part of the British Columbia crop, and by direct government purchase of a quantity of B. C. apples for distribution in the Western drought areas. In spite of these various forms of assistance, the average price realized by producers was much lower than in the 1938-39 season.

During the present season, on the other hand, the price has tended to be appreciably above that of last year and even somewhat above that ruling in the year preceding the war. This higher price is mainly due to the fact that the 1940 crop was most abnormally small plus the fact that a marked improvement in domestic consumption has followed the increase in purchasing power.

Tobacco: The average farm price received for the 1939 flue-cured tobacco crop was 2.4 cents a pound less than in 1938.⁵ This was not surprising in view of the record crop in 1939 and the serious reduction in United Kingdom imports. The preliminary estimate places the 1940

⁴Apple Supplement No. 142 to the Commercial Intelligence Journal, Department of Trade and Commerce, Ottawa.

⁵Tobacco Crop Report, issued by the Dominion Bureau of Statistics, January 10, 1941.

price at 21 cents, which is .7 cents above that of 1939. This year's drop in demand, caused by the complete elimination of the British market, was offset by a fall in production from 75 million to 34 million pounds.⁶

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That prices of farm products as a class have been lower since the war began than in the immediately preceding years is shown clearly in the official price statistics published by the Dominion Bureau of Statistics. The wholesale price index for all farm products stood at 69.4 in 1936, 84.5 in 1937, 73.6 in 1938, 64.4 in 1939 and in October 1940, the last month recorded, 64.6.⁷ These figures are percentages of the 1926 price. Perhaps the best evidence of the comparatively low level of farm prices during the war is found in a recent official publication showing the cash income from the sale of farm products in Canada by years since 1926.⁸ It is there indicated that, despite tremendous increases in production and sales since the war began, the farmer's cash income has increased by only a small percentage. That income was 647 million dollars in 1938, 702 million in 1939 and 714 million in 1940.

THE WAR'S EFFECT ON FARMERS' EXPENSES

If farm prices and income have not greatly altered during the war, the same can hardly be said of farm expenses. Among the many things which a farmer must buy in order to keep on farming the two most expensive are hired labor and purchased feed. Together they normally account for about forty per cent. of the total current expenses. This fact explains why so much emphasis is currently being placed on the recent rapid rises of farm wage rates and vegetable protein feed prices.

While no official figures on farm wages are available, the county agricultural representatives and other farm leaders estimate that male help is now receiving from forty to sixty dollars per month, depending on the proximity to urban centres. If this estimate is correct it represents a rise of about fifty per cent. during the past year. This rise is due, of course, to the rapidly growing scarcity of labor.

In connection with feeds, the last several months have witnessed pronounced price rises in the case of many vegetable protein feeds needed in the production of live stock and dairy and poultry products.

Statistics, January 6, 1941.

⁶Tobacco Crop Report, issued by the Dominion Bureau of Statistics, January 10, 1941.

⁷See Economic Annalist, December 1940.

⁸Cash Income from the Sale of Farm Products, issued by the Dominion Bureau of

While it is not possible to quote any average figure, recent increases in the prices of some of the ingredients used in the various feed mixtures will give a general idea of what has been happening. In the past year milk powder has risen from $3\frac{1}{4}$ to over 7 cents a pound. Oil cake meal has gone up by over a third and cotton seed meal by about 45 per cent. since last June. Alfalfa meal has advanced three dollars a ton since midsummer. In the same period soya bean oil meal has considerably more than doubled in price. Cod liver oil has just about doubled in value since the war began. In addition, prices of the various mill feeds have risen significantly.

Whether these price increases be due to an increased demand resulting from an expansion of agricultural production plus a special war industry demand, to contracting supplies, to increased shipping and exchange costs, to additional taxes or to some other cause, the fact remains that they have meant a real addition to farmers' operating expenses.

These expenses have been further increased by a rise in farm machinery prices of about five per cent. from 1939 to 1940, and by higher prices of building materials and various types of manufactured equipment. The price of commercial fertilizer, an increasingly important item, has also risen appreciably.

In addition to these increased operating costs, the farmer has been feeling the burden of increased living costs. Admitting that our War-time Prices and Trades Board has succeeded remarkably in preventing increased living costs, the official records reveal a rise in the cost of living index of over six per cent. since the start of the war.

From the foregoing it can be clearly seen that while farm prices and farm income have remained substantially unaltered the farmer's costs have risen very considerably. This can only mean that during the war period our farmers have encountered a less satisfactory expense-receipts relationship. The war period experience to date has resulted in a distinct worsening of their economic condition.

SOME OBSTACLES TO THE RAISING OF FARM PRICES

The increasing economic pressure resulting from this mal-relationship has caused widespread farmer dissatisfaction, as evidenced in the large number of protests and requests for financial assistance which the government at Ottawa has recently received from all parts of the country. The farmers have been claiming that they are being asked to bear more than their share of the war-time sacrifices and that if

agriculture is to be maintained in a healthy economic condition while putting forth the desirable war effort it will be necessary for the Federal Government to raise farm prices by paying subsidies out of the consolidated revenue of the country.

What many people are wondering at the moment is whether the giving of such price increases is really feasible or whether it would achieve the desired results. Our government has proceeded with the fundamental belief that the price to be paid for a farm commodity should be that price which is necessary to induce a required quantity of production. It is further held that any higher price will induce extra production and bring on a serious condition of surplus and that this surplus when unloaded into the domestic market might result in an average price even lower than that which exists at present, *e.g.*, while it is readily admitted that the existing price of hogs may be too low to maintain or expand production in Eastern Canada, it is believed to be high enough to induce an expansion in the West sufficient to offset any contraction in the East.

Perhaps the most significant recent development in Canadian agriculture is the sudden and wholesale expansion of live stock and dairy production in Western Canada. For the past two or three years Western farm leaders have been telling Easterners that unless a more satisfactory market could be found for wheat, Western farmers would be compelled to produce live stock and dairy products on a scale that would be certain to produce serious repercussions on the agriculture of Eastern Canada.⁹ Since the wheat market situation has become worse rather than better, the truth of these predictions is now becoming obvious. Many people are probably unaware that the Prairie provinces produced one-third of Canada's creamery butter and just about one-half of her hogs in 1940.

This development now makes it necessary to consider carefully the reactions of Western as well as Eastern producers to any price advance that might be offered. In earlier years, when Western production was a small part of the total, such consideration was relatively unnecessary. It would appear, therefore, that if one were looking for the key to the development of our immediate price problem in Eastern Canada he would find a large part of it in the inability to discover a large market at a fair price for Canada's wheat.

Finally, if the government experts are correct in estimating that

⁹See *e.g.* the addresses of Hon. J. G. Taggart and others in the Proceedings of the Conference on Markets for Western Farm Products, December 1938.

higher farm prices will result in more than the wanted supplies, then the government, in granting any price increases, would presumably either have to permit the extra production and gamble on a future expansion in the demand whether at home or abroad or undertake regulatory steps to prevent farmers from bringing about the added production.

A further obstacle to the raising of farm prices is the possible effect of these higher prices on the cost of living index and on wage rates. Our Prices and Trades Board is entrusted with the task of preventing serious increases in the cost of living. In addition, our government has recently promised that if and when the cost of living rises to a certain level wage rate advances will be granted. Should wage rates rise, war costs in general would go up and the way might be opened to serious inflation. We might start the vicious spiral of higher prices followed by higher wages, followed by still higher prices and wages. The reason for mentioning this here is that our agricultural products make up the major portion of Canadian food supplies. The food bill, in turn, is the most important single item in the cost of living. Hence to raise farm prices would naturally tend to cause a chain of events which our government has been taking all possible pains to avoid. Such a result might be avoided, at least in part, by following the current example of the British Government in paying the price bonuses to the retailer on condition that he sell to consumers at the previously existing price. There would seem no reason why the bonus necessary to give the farmer his higher price might not be paid to the first intermediary to receive the farmer's products rather than to any later one such as the retailer. Some such plan would seem necessary if a rise in the cost of living, with all its consequences, were to be avoided.

"TRANS-CANADA" ABREAST OF THE TIMES

W. S. THOMPSON

Since its first survey flight in 1937, Trans-Canada Air Lines has developed rapidly. Organized for peace-time needs, its ability to adapt itself to war-time requirements has been a real factor in the success of the British Commonwealth Air Training Plan.

* * *

AN outstanding phenomenon of our generation is the extension of air routes throughout the world. So important had they become as routes of trade and commerce not even the war could disrupt them. Indeed, they have become more important at this time of world crisis.

Trans-Canada Air Lines takes its place, young as it may be, among the important world transportation systems. When the national air service was born the British Empire was on the eve of completing a world-girdling service by air linking the dominions and colonies. T.C.A., in effect, married the Atlantic and Pacific in this family circle still, unhappily, incomplete.

Meanwhile, its domestic operations have proceeded in orderly manner. In April, 1937, Trans-Canada Air Lines was but an Act of Parliament. By the end of 1940 the air line was flying five million miles a year, carrying one million pounds of mail, 100,000 pounds of express and 55,000 passengers.

Events have moved quickly for T.C.A. since its birth. The board of directors' first practical step toward implementing the Act was to secure the services of two outstanding air line executives from the United States. We went to the U. S. because our problem—never before met in Canada—was on all fours with theirs and they had accumulated 10 years of experience we greatly needed.

These men were P. G. Johnson, now president of Boeing Aircraft Company, and D. B. Colyer, now vice-president of Trans-Canada Air Lines. The next step was to secure four specialists to assist in development of the operations organization until such time as our Canadian personnel could take over.

One of these latter, Mr. S. S. Stevens, a native of Vancouver, remained to become a permanent officer of the company. The Dominion

as a whole, and Trans-Canada Air Lines in particular, owes a deep debt of gratitude to these men. Without them, the way would have been harder and progress slower. They never spared themselves or their time in directing the training of the personnel.

From the start, Canadian National Railways, which owns all the common stock of the air line, has had an intimate working relationship with T.C.A. in the interests of economy and convenience. Both companies are common carriers and functions which do not pertain exclusively to an air transport operation are performed, or supervised, by the staff of the C.N.R. acting for T.C.A. These functions are: accounting, advertising and publicity, architectural, insurance, legal and tax, medical, purchasing, secretarial and treasury.

Airway facilities were quite limited when the air line made its first survey flight in July, 1937, between Vancouver and Montreal. It was a herculean task the civil aviation branch undertook to provide ground facilities for this new trans-continental artery of transport. Credit must be given all those associated with the work, including the municipalities which provided and maintained airports through the lean years of the depression. Without the airway and its ground facilities there could be no airline.

During the winter of 1937-38 radio ranges were placed in operation at Regina, Lethbridge, Swift Current and Medicine Hat. This enabled us to proceed with our pilot training program, teaching a type of flying entirely new to Canada.

By the fall of 1938 airport and airway facilities west of Winnipeg were in satisfactory condition and additional radio ranges were being installed in the mountain section. East of Winnipeg, the radio range system was in operation but terminal fields (regular stops) were not yet usable in Northern Ontario.

We had five twin-engined Lockheed Aircraft on which to train our personnel by the fall of 1937. At the end of the year an order was placed for six of the Lockheed type now in use. These were received during the summer and fall of 1938.

Installation of our ground radio station equipment commenced in October, 1937. A year later it was completed from Vancouver to Montreal.

It is the policy of T.C.A. to make use of existing facilities on a rental basis wherever possible. We were able to lease hangar accom-

modation at Vancouver, Edmonton, Regina, Calgary, Kapuskasing, Wagaming, North Bay, Ottawa and Montreal. By the fall of 1938 we had completed our own hangar and office facilities at Winnipeg and a hangar at Lethbridge. In September, 1938, a contract was let to construct a T.C.A. hangar at Toronto (Malton airport).

From the outset we established three principles to govern our flight operations. These were safety, comfort of passengers and regularity of schedules. In no instance can safety or comfort of passengers be sacrificed in favour of performance.

Training of the flight personnel was thorough-going from the start. It consisted then of six stages: instruction in the mechanical functions of the equipment and accessories; primary flying training in the aircraft to be used; instrument flying; local radio range flying; local night flying; cross-country instrument flying.

Actual flying was supplemented by extensive courses in the Link trainer, which duplicates on the ground, and in the replica of an aircraft, the navigational and other flying problems that could conceivably be encountered in the air. That rigid program holds good today except that provisional first officers spend six months in the maintenance and overhaul shops before they commence actual flight training. It is perhaps worth mentioning our experienced personnel never cease training. It is a condition of service they spend one hour a month in flight exercises aloft. Periodically they report to headquarters at Winnipeg for a refresher course in the Link trainer.

A decision was early reached that maintenance and overhaul work would be concentrated at Winnipeg and T.C.A. personnel would be trained to do this work. By December 1, 1938, we were ready to commence complete overhaul of our equipment.

The history of our service is, naturally, a record of "first things." An experimental training schedule was commenced December 15, 1937, between Winnipeg and Vancouver. Flights were conducted during daylight hours only and under favourable conditions of weather. The following March an experimental daily air mail service, with flights during daylight hours, was started between the two cities. By April 1 we were night flying from Winnipeg to Regina and, by July 1, operating both day and night schedules between Winnipeg and Vancouver.

On September 19, 1938, T.C.A. inaugurated air express service between Winnipeg and the Coast. Shortly after, October 1, we inaugurated regular air mail service. This latter date also saw air mail service established between Lethbridge and Edmonton.

In February, 1938, we were becoming concerned with the eastern section of the airway, much newer and therefore less developed than the western section. Experimental flights were made to observe winter conditions at the Northern Ontario airports. While airport construction work proceeded that spring and summer, no further flights were possible until August. Effective September 6, experimental daylight flights started between Winnipeg - Toronto - Montreal. Not until the following March was regular air mail and air express service begun between Montreal and Vancouver.

On April 1, 1939, passenger service was inaugurated between the St. Lawrence and the Pacific. But we were not yet serving the Maritimes, and in November of the same year we commenced an air mail and express service between Montreal and Moncton. February, 1940, saw the opening of passenger service to Moncton.

Such is the brief history of T.C.A.'s early operations. To read a time-table folder today one has an idea of the progress accomplished in three years.

In our Lockheed equipment we have an air transport that is in use on 31 of the world's major airlines. A large part of our organization, almost 50 per cent. of it in fact, concerns itself with keeping the aircraft as efficient as when they left the factory where they were fabricated.

All major overhauls and engine changes are carried out at the Winnipeg maintenance base, which occupies the greater part of our buildings there. In its essentials it consists of a large hangar, 200 x 150 feet, with accessory shops along two of its sides and an engine test house adjacent to the engine overhaul department.

Three groups comprise the maintenance organization: engineering division, repair base and service department, all under the jurisdiction of a superintendent. Engineering affords technical assistance to the operating department, designs all repairs and modifications to the aircraft, furnishes specifications for new equipment and machinery. Repair accomplishes the actual overhaul of equipment, especially routed to the maintenance base for the purpose, and service is concerned with the routine checks of aircraft in service.

All aircraft are checked at definite time intervals. One check is made each time an airplane lands. Another is performed at the completion of every ten hours' flying time and a third after 50 hours in service. The checks are progressively more thorough and cover more

items until the "number four" check, which is completed only at the Winnipeg base. It takes place at the end of 150 hours in service. Engines are removed at 600-hour intervals regardless of the stage of the aircraft check.

During the number four check the airplane is jacked up, its wheels removed and inspected, the landing gear actuated and examined. The cabin is stripped and the floor removed, while inspectors systematically examine every part of the structure and record any item out of order. This record is the "repair and modification" form which is placarded on the aircraft until all work is completed. Any irregular operation of the equipment while in flight is noted by the pilots and entered in the log book that always accompanies the aircraft. These reports are also checked by the inspectors and transferred to the form if necessary.

Such items as engines, flight instruments, propellers, radio and electrical equipment all go to separate shops for major overhaul before they are returned to the aircraft. Some 900 pieces of equipment are checked and overhauled each month. Each shop maintains a history card on every item handled. It commences the day the part went into service.

During the engine overhaul the engines, apart from their accessories, are completely dismantled into upward of 4,000 parts. Every trace of oil and dirt is removed in the cleaning shop. Cylinder barrels are sent to the sand blast room. All steel parts are checked with an electromagnetic device to expose any cracks not visible to the eye. Cylinder barrels are put through an hydraulic test well above the maximum working pressure. This will give an idea of the thorough-going nature of the overhaul procedure. When an engine is reassembled it is routed to the engine test house for a 7-hour run-in period.

It is apparent that we encounter many problems peculiar to our own Canadian operation. The engineering department does a great deal of investigation and test work. Many important modifications have been made on our aircraft as a result. Some of these have been adopted by the equipment manufacturers and, I am happy to say, have proved of service to the Royal Canadian Air Force.

In this latter connection many of our employees have joined the armed forces since war's outbreak and especially the R.C.A.F., with which Trans-Canada is co-operating in many ways.

Undoubtedly, our greatest contribution to the war effort has been to provide rapid transport of men and mails across the Dominion four

times daily. More specifically, however, T.C.A. has undertaken the over-haul and repair of R.C.A.F. flight instruments in its shops. Some 200 of these delicate devices pass through the instrument shop, which was quadrupled in size and air-conditioned to meet the new situation, each month. For the past few months we have been servicing metal propellers of military aircraft at Winnipeg and servicing R.C.A.F. Lockheed equipment at Toronto. By the time this is in print we will likely have a repair base in operation at Toronto, especially for this latter type of military aircraft.

Almost a year ago our pilot personnel volunteered their "lay-over" time for any duties that would contribute to the war effort. Their services were accepted and employed in two ways: "ferrying" aircraft from United States points for the Department of Munitions and Supply, and between training fields in Canada; and training civilian pilots proceeding to the United Kingdom in the employ of the British Ministry of Aircraft Production. The training program has progressed continuously since September last.

What of the future? It is overshadowed by the war. Under normal circumstances T.C.A. would continue to expand. Air mail grows in volume daily. The public has accepted our passenger service to the extent that air travel is woven into the pattern of our daily life. A single schedule requires almost as much ground service as a second, third and even a fourth. But additional schedules require additional aircraft.

The march of events require speedy communication to facilitate war production. They also require aircraft for the military forces even more urgently. The future supply of aircraft and accessories to civil aviation is uncertain. It is a condition we face, and face cheerfully, in common with all other operators as partners in national defense.

Only in recent weeks has T.C.A. taken delivery of six new transports ordered in the spring of 1940. There will be some expansion in 1941, although not to the extent the public and Trans-Canada are perhaps ready for it. I know the Canadian people will understand the circumstances.

When we "roll on to broader lands and better days," to use the words of Britain's gallant Prime Minister, Trans-Canada Air Lines will be ready for the tremendous growth that awaits air transport.

THE ADVENT OF MERIT RATING IN CANADA

ROBERT E. CONSLER

Mr. Consler, of the University of Western Ontario Department of Business Administration, presents a general appraisal of "merit rating" and discusses its use and application in Canadian industry.

* * *

THIS subject may be called merit rating, service rating, or employee rating, but for simplicity it will be referred to as merit rating in this paper. Merit rating is the rating of employees usually by a superior or superiors as to their relative value to the organization for which they work. The system involves putting a mental picture of the person's abilities, personality, and potentialities on paper. This definition may be too simple in view of the problems involved, but it is expected to serve only as a generalization. Since this subject, not new in years but new in popularity, has no standard practices, it may often be left to the reader to decide what will fit his situation best.

I.—PURPOSE OF RATING

Management has recognized the fact that in order to carry on a personnel program intelligently it is necessary to know the workers. The question of what the man does has been settled through job analysis. This report is not concerned with job analysis, but it might rightfully be, for job analysis is the basis of merit rating. The work of the employees must be established first before the worker can be rated as to performance, abilities, etc., because a common base is needed for comparisons. After a common base is set, the management wishes to know the relative performance of each man so that this knowledge may be used to administer policies more fairly.

In recent years unions have grown in power and with them has come necessity for management to protect itself as much as possible in matters of personnel. Merit rating gives management a closer picture of its men so that it, rather than the union, may act as father to them. Along with the growth of unions has come the era of large corporations, especially true after the mad consolidation period of the twenties. Size makes personal contact with all employees by top management a physical impossibility, but merit rating acts as a type of substitute for this lack of personal relation and interest. The depression has

forced companies to take a closer interest in production and personnel problems in order to control costs. A good merit rating system will eliminate poor men and protect good men, which means dollars saved.

With the growth of unions and companies plus the impact of the depression, it can be seen why management has taken up merit rating. Many progressive organizations such as United States Steel Corporation have used such a system for years, but it was not until some seven years ago that merit rating became popular. This time marked the start of greater interest in personnel problems as a result of the rise in union activity and the pressure from the depression.

II.—USES OF RATING PLANS

It should be made clear that merit rating by itself is only a means to an end and can be classified as a tool of management. The average firm is using it in just this way because managers realize that other factors may enter into the problem (the dangers of rating will be shown later in this report). This general thought was expressed by an automobile parts executive when he said: "It is not our intention to use this rating system as a fixed measuring instrument, but we do believe it useful as a tool in guiding us in innumerable decisions affecting the individual." As a tool, however, merit rating has many varied applications. Leaving out the general purposes mentioned above, the following are most typical today:

- It (1) Provides a basis upon which to pay men in relation to their value to the organization.
- (2) Reveals undiscovered weaknesses in employees which may be corrected either by the employee alone or with the assistance of the management. (Training.)
- (3) Enables management to pick out the leaders among the workers so that they can be promoted to the benefit of both the worker and the management.
- (4) Indicates need for transferring to work better suited to the worker or need for demotion to work which the worker can handle.
- (5) Provides one of the basis for determining lay-off in time of reducing the staff.
- (6) Provides one of the basis for re-hiring men in accordance with their worth.
- (7) Forces the supervisory staff to take inventory of its force at regular intervals and keeps the staff well informed of the worth and condition of its force.

- (8) Allows upper management the opportunity to see how each supervisor judges his force as to fairness, leniency, or severity.
- (9) Enables management to compare workers with the standard and act accordingly.
- (10) Points out weak workers who after a fair trial have proved they are not suited to the work and the organization and are therefore discharged.
- (11) Provides an excellent check on the ability of the placement process.
- (12) Stimulates self-encouragement and self-development among the workers because it provides a base for future hopes.
- (13) Creates a feeling among the workers that management is watching them, and if they prove themselves, reward will come. It ties worker-management relations closer together.
- (14) Creates a feeling of fairness toward management and thus helps lift morale.
- (15) Reveals hidden talents which otherwise might go unnoticed.
- (16) When more than one rater is used, the worker is given a chance for fair recognition which might otherwise be covered by his foreman for personal reasons outside of business.
- (17) Provides a base to use in handling grievances in dealing with the unions. This is particularly true in maintaining questions of ability when seniority rules are in force.
- (18) Lever Brothers use it for discipline cases.

There may be other uses but the main ones have been covered in the outline above. A recent survey by Northeastern University shows the frequency of the different uses:¹

Wage determination.....	26
Promotion	29
Transfer	27
Layoff	23
Hiring	15
Re-hiring	4
Uncovering individual weaknesses	3
Forcing supervisor to study workers.....	2

This survey gives an idea of the relative importance of each use. It also goes further to show that each company may use a plan of merit rating for one or more purposes. There is no reason to believe a system

¹"Merit Rating in Industry," by A. S. Knowles. February 1940 issue of *Northeastern University Publications*. Bulletin No. 1.

cannot have many uses, and industry has been receptive of this. The following table illustrates the distribution of the number of uses involved:²

Number of Purposes	Times Mentioned
1	6
2	7
3	7
4	10
5	6
6	4

This survey serves as an example of the trends of the present day. This information can be further supplemented by statements from various companies showing both the type and number of uses it makes of merit rating. United States Steel Corporation, which has for a long time had a merit rating plan for laborers, has just recently made a plan for salaried workers earning \$4,000.00 and up. They feel this new plan will provide "an accurate gauge of executive personnel which can be paid on a fair and equitable salary basis. The plan will promote employee morale and bring executives closer to their subordinates. Employment and recruiting methods can be checked readily."

The Eastman Kodak Company has designed its merit rating to accomplish only two functions: (1) to be used in case of a general reduction in force, or (2) when recalled laid-off employees return to work. This is a good example of a highly specialized system with very restricted uses. General Electric uses its system for wage determination, layoff, transfer and promotion. United States Steel Corporation and General Electric Company are more typical, but it is well to remember that merit rating may also be used very effectively for specialized purposes as illustrated by Eastman Kodak Company. The uses that the systems are put to will vary with the individual requirements of those using them and the efforts put forth to administer them.

Since the declaration of war by Canada there has been an extended use of merit rating in training of workers. One of the first problems Canadian business men had to face on entering the war was that of providing properly skilled workers to handle the increased orders. After all outside sources of labor were exhausted, it became an invaluable tool in selecting the proper workers to be promoted, transferred and allowed to participate in extra training courses. Merit rating provided a basis of distinguishing the potentialities of individual workers. Much

²"Merit Rating in Industry," by A. S. Knowles. February 1940 issue of *Northeastern University Publications*. Bulletin No. 1.

valuable time and many needed dollars were saved by those companies who had a well-established merit rating system.

It is easy to see that if the best material is used for extra training and promotions the cost will be lower and the results far superior. With the pressure increasing for more production and a dwindling source of skilled workers, merit rating has a more definite reason to be included in Canadian business today than ever before in our history.

III.—EXTENT OF THE USE OF MERIT RATING

Merit rating is being used by many varying types of businesses. The system has not been confined to any one industry, area or territory. The main limitation on merit rating is the size of the organization. There is little need for such a plan in small plants or stores when the manager knows each person well. It is difficult to set the minimum number that warrant rating, but it is probably around 250 people. Merit rating is designed to correct the faults of large concerns which are physically too large for management to know personally. These faults can be found in a small organization through personal contact; thus it is advised not to use a merit rating system in the latter instance.

There is no better way to show the extent to which merit rating is used than to refer to a current survey being conducted by the Bureau of Business Research at the University of Western Ontario.³ Preliminary returns of this survey show the following results. Of the 56 Canadian companies surveyed 20% use merit rating, 11% plan to use it in the near future, 0% have used merit rating and given it up, and 69% have not considered its adoption feasible. These concerns are all well-known companies located in various sections of Canada. They represent many fields of manufacturing, wholesaling and retailing.

One can see that even 20% using merit rating is fairly high. Try to find many similar programs with such a showing. There is little doubt that merit rating has been found of value for no firm in the survey has dropped its plan to date. The value and interest in the program is mounting as shown by the fact that 11% of the concerns are now considering the adoption of merit rating. These figures show a great increase in the use of merit rating in Canada over a few years past. Directors of Personnel have recognized the value of merit rating so that in the not too distant future it will become a standard practice of most large businesses.

³The final form of "Merit Rating in Canada," by Otton and Colburn, will be printed in the near future in this publication. The author of this article wishes to thank these two men for advanced information used here.

IV.—BUILDING A SYSTEM

In all the following steps it is well to remember that management and labor should work co-operatively in order to insure the fairness and acceptance of the plan by all. The union should be allowed to consult the company in drawing up the plan and also should be given a complete record of rating. This will eliminate long hours of debate later when the ratings are actually used for layoff determination or one of the many other uses.

The first thing to do in setting up a merit rating system is to study other plans in use. It is best to read plans of companies in the same industry, or with similar workers, so comparisons may be drawn. Next study these systems and tabulate the observed traits. It is difficult to say which to choose for a particular case but that choice depends upon sound judgment and a knowledge of the business concerned. The same is true of the weights given to each trait. In reality the procedure up to this point is simple compared with the problems ahead which must be handled with utmost care. The following survey by Starr and Greenly illustrates to the reader the various items used in merit rating today, the frequency of their use, and the number of items considered on the typical merit rating form.⁴

NUMBER OF ITEMS CONSIDERED

21	12	7
19	11	6
15	10	6
14	10	5
13	7	4
12	7	4

The average number of items per rating sheet is 10.2.

35 RATED ITEMS USED BY 16 COMPANIES⁵

Item	Frequency	Item	Frequency
Quality	12	Versatility	8
Quantity	11	Leadership	8
Co-operation	11	Judgment	7
Initiative	11	Intelligence	7
Dependability	10	Attendance	6
Personality	10	Knowledge of Job	6

⁴"Merit Rating Survey Findings," in April 1939 issue of *Personnel Journal*, by Starr and Greenly.

⁵Loc. Cit., Starr and Greenly.

* Two Companies had two plans, thus eighteen systems in all.

Health	10	Potentiality	5
Safety	9	Habits	5
Industry	9	Years of Service	4
All others		3 or less	

The problem of defining each trait may often prove difficult. Care should be taken that the definition should fit the use for which the trait was chosen. Next, instructions should be printed on the form in order to guide the raters. If clear instructions are not given, the raters will not all act alike. Often it is well to give a short training course to instruct raters in their duties and clarify any questions that come to their minds.

The selection and number of raters is the area where good judgment is most important. There should be more than one rater so that each can act as a check on the other. One man may have personal grievances against a worker and take it out on the merit sheet. By using two or three men, this feature is eliminated to some degree. The foreman and superintendent are the men best qualified to do the rating. They work so close to the laborers that their opinions will not be based on first impressions. For lack of this qualification outside raters have proved unsuitable.

The company should check the ratings of each rater, and all raters as a group, to see if the "halo" tendency has entered in. The "halo" tendency appears when the rater has a tendency to rate all men as tops or nearly perfect. This feature may throw the whole system off if one man tends to be too liberal. It is easy to pick out the top and lowest 15% of the workers, but in the range between lies the difficulty. If careful rating is done, the middle class will be better rated, and it is in this area that distinction is necessary.

No merit rating system can stand the passing of time without review. Industry changes and so must the devices used within its scope. A yearly review of the merit system in the plant should be scheduled. In the same light, human beings change too; therefore, each employee should be rated annually. A worker may change his whole attitude in the course of a year; thus it is only fair to re-rate the man. A worker should be re-rated when special cases demand, but otherwise just once a year. This whole procedure should keep the system current so it will be of value at any moment.

In the last analysis, a merit rating system should be carefully chosen to meet particular circumstances. With proper administration,

the plan should prove of great value. The merit system gives both management and labor something more definite upon which to base its conclusions. Of course, this value will exist only if the unions are allowed to collaborate in setting up the plan and are given records so that it can check performance. Again, it should be pointed out that the merit rating system is to be used as an aid rather than a mathematical formula. Human beings are not adaptable to formulae but rather to personal elements. The entire cost of the merit rating plan may well be compared with the tangible and intangible benefits of the program. Such a study should not neglect intangible factors, since so many of the benefits of a merit system, such as the effect upon the public and upon the morale of employees, are difficult or impossible to measure.

BUYING INSURANCE

WALTER J. BLACKBURN

Mr. Blackburn of Hiram Walker-Goodeham & Worts reviews the main points to be considered in buying insurance and corrects some popular misconceptions of insurance coverage.

* * *

THE problems of the insurance buyer are many and varied and the average business man looks on insurance as an extortionate charge against his profits, and a general nuisance.

Very few merchants or manufacturers have even a working knowledge of the fundamental principles of insurance coverage and only a small percentage of present-day insurance agents are able to advise them efficiently.

Insurance has passed the stage when a certain coverage was just that, and if it didn't suit the requirements of a particular individual, he was out of luck. Not so many years ago, the butcher, baker, country storekeeper and large manufacturer were provided with almost identical contracts, but today insurance is tailor-made to fit individual needs, policies are broadened without much cost, many hazards formerly covered separately are now embodied in one document, and the day is not far off when all hazards will be covered by one, two or possibly three types of coverage.

There are three principal points to consider in the buying of insurance, and I list them according to their importance — Quality, Quantity and Cost.

QUALITY

Quality is essential.

While today some of the largest companies in the business are operating "independently," that is, outside the recognized rating bureaux, history shows us that companies with failures in the past, which have resulted in financial loss to the public, have been among those who have cut rates and have operated in defiance of experience and sound underwriting.

Insurance is merely a promissory note payable under certain circumstances, *i.e.*, loss occasioned by certain perils or hazards.

You cannot set the policy of one company against another and compare them as to quality, as you can any type of merchandise.

All Insurance Companies furnish their clients with exactly the same thing, a tastily lithographed policy.

The time to find out whether these policies are collectible in cash, or merely scraps of paper, is prior to a loss, not after it.

Complete statistical information is available regarding the financial standing of any licensed insurance company.

Your Government supplies it for you and while no company is guaranteed solvent by the Government, its very complete annual inspection is a pretty fair guarantee.

Beware the unlicensed company and the one who offers something cheap and just as good.

You don't take chances with your health, the best qualified physicians are not too good, but your business may be in a very unhealthy condition if your insurance is not bought with care.

Quality also embraces the selection of your insurance agent or broker.

Many a qualified agent has spent weeks of time and effort in straightening out a potential client's insurance, making his protection efficient and saving him money, only to be told that, in spite of his service, the insured's wife's brother is "in" the insurance business and the account must go to him—"Sorry, old man, blood's thicker than water; thanks for all you have done; but poor old Bill has been out of work for some time and has taken up insurance as a last resort, and has an agency for the Superfluous Underwriters, so I have to help him out."

As far as the health of a business is concerned, this action is comparable to allowing a first-year medical student to perform a complicated operation on your innards; on second thought, it is worse.

Too much insurance is placed with agents for sentimental reasons, friendship, or just because the agent is a good scout.

Choose as your agent the best qualified insurance man in your community, even if he is on the other side of politics, doesn't go to your church—or is an atheist for that matter—and beats you at golf.

After choosing your agent, give him all your business—don't give it out in parcels to half a dozen agents because they reciprocate by buying from you or for any other reason.

Many loss settlements have been complicated by a variety of agents expressing their individual ideas of how the protection should be written, and producing a number of policies all different in the essentials.

All policies covering the same hazards should be identical.

QUANTITY

Quantity is a very important item.

If business is bad, insurance should not be curtailed to reduce expense, for obvious reasons.

If you have a certain value in stock, insure it for its value, so that you will be fully reimbursed if you lose it.

Keep a regular inventory and keep it up to date, and insure on the basis of your present-day value, not on what it was six months ago.

Don't keep your inventory in a non-fireproof safe, so that it will be burned up with the rest of your valuables in a fire.

Some policyholders think that the production of a detailed and accurate inventory after a fire will arouse suspicion in the mind of the adjuster that the loss was anticipated.

Nothing is farther from fact; any claimant who can produce an accurate and substantiated inventory after a loss will be welcomed with open arms by his adjuster.

There are persons who are exceptions to this, but it is unlikely that they will read this article.

CO-INSURANCE

The old bug-bear of co-insurance has a proper place under Quantity.

While the attachment of a co-insurance clause to an insurance policy accomplishes a reduction in rate, it should not be looked on as only a method of rate reduction.

If the clause is fully understood there is no danger; if it isn't understood and the insured does not comply with its conditions, it will produce more headaches than the indiscriminate use of our products (Advertisement).

The co-insurance clause is an agreement entered into by the insured with the company writing his insurance; the insured agrees to

carry a certain percentage of his value in insurance and the companies agree to give him a reduction in rate.

If the insured lives up to his part of the contract, he will never know the clause is in his policy; if he doesn't, he will be legitimately and fairly short-changed on his loss; he will curse loudly and long and will blame everybody but himself and the poor long-suffering insurance business will get an undeserved and unfair black eye in the community where the loss occurred.

The clause reads as follows, and for the sake of convenience we will work on an 80% basis, as, although the clause may be for that percentage or for 90% or 100%, the basic principles are the same:

"It is part of the consideration of this policy and the basis upon which the rate of premium is fixed, that the Insured shall maintain insurance concurrent in form, range and wording with this policy on the property hereby insured, to the extent of at least 80% of the actual cash value thereof, and that, failing so to do, the insured shall be a co-insurer to the extent of an amount sufficient to make the aggregate insurance equal to 80% of the actual cash value of the property hereby insured, and, in that capacity, shall bear his, her or their proportion of any loss that may occur."

In plainer language, the company says, in effect, to the insured: "If you will carry 80% of your value in insurance, we will reduce your rate, but if you don't live up to your contract and don't carry insurance to the full 80% of your value, you will be penalized, and the amount of your penalty will be gauged by your deficiency from your contract."

Perhaps that isn't any plainer—anyway, here is how it works: the following schedule also brings out the point that co-insurance penalty only operates on partial losses, and is inoperative when a loss equals or exceeds the percentage of value required by the clause.

We will presume the insured has property with an actual cash value of \$1,000 and policies containing the 80% co-insurance clause; he should carry \$800 insurance but carries only \$600 and has losses of \$500, \$800 and \$1,000.¹ Here's the way the losses would be apportioned:

¹Not at one time—we have to give the insurance companies a break—anyway, he probably wouldn't get any insurance after the second fire, but that's another matter. I may get in wrong with the companies by associating with someone who has had three losses, however.

	\$500 Loss	\$800 Loss	\$1,000 Loss
Insured has \$600 insurance and should have \$800, and therefore is short \$200 of insurance and bears his, her or their proportion of the loss, namely $\frac{1}{8}$	\$125	nil	nil
Insurance companies bear $\frac{7}{8}$	375	\$600	\$600
	<hr/>	<hr/>	<hr/>
	\$500	\$600	\$600

(% of \$1,000 is \$750, but the insured can't collect more than the face value of his policies — what do you think the insurance companies are, philanthropic institutions?)

In the cases of the \$800 and \$1,000 losses the insured is, of course, short \$200 and \$400 respectively, but these deficiencies are lack of insurance, and are not brought about by the operation of the co-insurance clause.

One or two last words on the subject:

There is a popular myth that the attachment of the 80% co-insurance clause means that the companies will only pay 80% of any loss; this is, of course, entirely false.

You will notice the clause reads "to the extent of *at least* 80% of the actual cash value, therefore an insured is not limited to 80% of value, but 80% is the minimum amount required by the clause—100% of value may be carried in insurance and legitimate losses collected on this basis.

If I were a clergyman, which, fortunately for my possible parishioners, I am not, I would be getting to the "secondly" in this sermon.

Secondly, let us review the question of quantity:

If you have a co-insurance clause in your policies, understand it and live up to it.

Do not save a few premium dollars and maybe be short thousands if you have a loss.

Remember the old adage, "Insurance is worth nothing when you have no losses, but much if you have one"—therefore, be sure you have enough.

COST

The question of cost is pretty well covered by Quantity and Quality.

It is not wise to pay good dollars for insurance and find your policies only pay part of a loss.

Cheapness in insurance is not necessarily a guarantee of Quality.

A very true adage of the insurance business is, "Good Insurance Isn't Cheap — Cheap Insurance Isn't Good."

Cheapness, however, is relative and usually quality carries only a commensurate charge for hazard assumed.

RATES AND PROFITS

While this has nothing to do with buying insurance, it may be of interest to know that fire insurance rates in Canada, and everywhere else for that matter, have been consistently reduced by the insurance companies.

In 1922 the average fire rate in Canada per \$100 of insurance was \$1.06, in 1938 it was 68c.

This reduction is due mainly to the efforts of the insurance companies in educating the public to fire prevention and fireproof construction, thus reducing losses with an automatic reduction in cost.

The profit made on fire insurance has not been excessive, as in the past sixty years or more for which we have a record of the business in Canada, the profit has been considerably less than 5% per annum, and this, it must be remembered, is on an annual turnover.

Insurance is one of the most highly taxed businesses. Not so long ago a comparison was made showing the ratio of taxes per \$100 of sales to be:

Wholesalers	\$1.37
Retailers	2.01
Manufacturers	3.37
Insurance Companies	5.06

This comparison was made prior to any recent increase in taxation.

Of course, in the final analysis, the public pays these taxes indirectly through insurance rates, but it is well to remember these facts of rate reduction, service to the public, and taxes the next time you think your insurance agent's rate quotation is too high.

The modern tendency of the insurance companies is to maintain the rate level but to give more for the insured's money: witness the Supplemental Cover Endorsement, adding Windstorm, Riot, Explosion, Lightning, Sprinkler Leakage, Smoke Damage and damage by impact of aeroplanes and motor vehicles to the fire policy for a charge much lower than the cost of these various coverages if written individually; also the creation of the Personal Property Floater, giving the insured

all-risk cover on his furniture and personal effects anywhere in the world for such a nominal premium that the whirling of the deans of the insurance profession in their copper-lined caskets has been heard from coast to coast.

Having given the insurance business a not undeserved plug, we will turn to other matters.

USE AND OCCUPANCY

Use and Occupancy is a much-maligned form of cover, as a result of the stupidity of the agent in explaining it, and the stupidity of the insured in attempting to understand it.

It is not my intention to go into the details of this protection, but rather to emphasize a necessary fact in connection with valuation.

In the first place, Use and Occupancy is not well-named; a better term is Business Interruption.

It is supposed to do for a business what it would have done for itself if the peril insured against had not occurred and interrupted the business.

In arriving at a valuation, the basis is net profit plus continuing expenditures, such as Salaries of Executives and skilled employees, Contracts, such as advertising, royalties, dues, licenses, etc., Ground and other rents, Taxes, and other continuing costs.

In other words, Net Profit plus Fixed Expense.

The coverage itself can be arranged to suit the individual business; if it is seasonal the coverage can be staggered to give a larger amount of protection during the peak profit periods; it can be written on the basis of a per diem amount; actually "you pays your money and you takes your choice"—whatever your insurance need, a Use and Occupancy contract can be fitted to your requirements.

What I am interested in, and what should be your agent's interest, is, what are your requirements?

All Use and Occupancy losses happen in the future, after your business has been interrupted, therefore you have to value in the future.

It won't be much help to you to average your profits for the last few years and insure on this basis, if you anticipate a large increase in business during the coming year.

You don't want to collect last year's profits on this year's business, if last year was a bad one and this year is good.

This problem confronts a good many firms who until lately operated normally and now have large war orders.

If the reverse is true and business gets bad, it is just as important to reduce your Use and Occupancy insurance, as there is no need to pay premium for insurance that you cannot collect.

Use and Occupancy values should be a matter of continual check.

EXCLUSIONS

When you examine an insurance policy, you should look for the things it doesn't cover, just as carefully as for the things against which it gives protection.

In almost every policy you will find, tucked away somewhere, an "Exclusion Clause" and in addition you should familiarize yourself with the "Statutory Conditions" printed on the back of the contract, these being mandatory by a paternal government and inserted into the picture with the idea of keeping both the public and the insurance companies honest.

For instance, I have found, to my surprise, that some agents and a great majority of the public, don't know that fire occasioned by a riot is not covered under a Fire Insurance Policy.

Neither is loss occasioned by invasion, civil commotion or military or usurped power.

SABOTAGE

Because of the present unpleasantness in Europe, the war exclusion is of importance to us.

War coverage is available in two forms: Bombardment and Sabotage.

Bombardment coverage is not, luckily for us, of very great interest except on our East and West Coasts.

Sabotage is written as an extension to a Riot policy or a Fire policy to which the Supplemental Contract (which includes Riot) has been attached.

One sabotage endorsement which is written for a nominal premium covers damage done by enemy agents and carries the onus of proof that enemy agents were responsible for the damage.

The other and broader form covers Malicious Damage, whether done by enemy agents or not and, while a little more expensive, is the preferable protection.

MORE ON EXCLUSIONS

Speaking of Exclusion Clauses, as we were a moment ago, have you ever examined such clauses in the so-called "insured Bill of Lading" and found the carrier does not accept responsibility for riot, "acts of God," or damage occurring after the shipments have been warehoused at point of destination for certain periods?

Among things for which the Almighty may be blamed are Lightning, Flood, Tornado and Landslide, and the insured bill of lading would politely and properly deny liability.

I have found that certain firms consider they are fully protected if their name is included in the carrier's policy as an additional insured, but as the carrier's policy covers only his legal liability for loss to his clients, the inadequacy of such protection is apparent.

Proper Transportation or Cargo insurance is the solution, and this is written for a low premium charge, as it covers the losses excluded by the insured bill of lading.

PROPER WORDING

The Insurance Business being what it is, and having so many and varied angles and available coverage, I am not attempting to deal with anything but generalities; there is, however, one general point in connection with all insurance that is brought out by the following example.

In checking over the insurance of another distillery, I found the following insuring clause in their policy covering Products Liability.

Products Liability, by the way, is not carried as generally as it should be.

The public today is becoming hourly more "loss conscious," to use a very much-overworked phrase, and while the majority of claims handled under a Products policy are of the nuisance variety, being a polite way of interpreting blackmail, the cost of such protection is low and its value unquestioned.

One point in connection with all Liability policies is the fact that they cover in addition to the payment of any judgments against the insured for legal liability (not exceeding the limits of the policy) any costs of defense or legal action, even if the claim is groundless.

That is, they do if they are properly worded.

The insuring clause of the contract I mention reads as follows:

"The company agrees to indemnify the Insured against loss from such liability as is in the Policy undertaken because

of bodily injuries as therein defined, due to the possession, employment, consumption or use, elsewhere than upon the Insured's premises, of any merchandise, or product manufactured, sold, handled or distributed by the Insured, if caused solely by any physically deleterious, noxious, dangerous or otherwise harmful subject or thing within or upon any such merchandise or product, which is not intentionally introduced or permitted to remain therein or thereon by the Insured, including the explosion or rupture of any container wherein such merchandise or product is delivered by the Insured."

On the face of it, this looks like a pretty good coverage as it covers losses caused by dangerous or harmful ingredients being in the product of the insured, which the insured did not introduce himself.

This policy, however, isn't worth powder to blow it off the agent's desk.

When it is remembered that the majority of Products claims are of the nuisance variety, the superiority of the following wording is apparent.

The insuring clause should read:

"The company hereby agrees to indemnify the Insured against loss from the liability imposed by law upon the Insured, for damages (including consequential damages) arising out of Bodily injuries or illness, including mental anguish or death at any time resulting therefrom, suffered or *alleged to have been suffered*, during the period of this policy, by any person or persons, other than employees of the Insured, while engaged in the duties of their employment, through the possession, consumption or use of any products (including their containers) manufactured, handled or distributed by the Insured or *claimed to have been manufactured, handled or distributed by the Insured*."

I have underlined the important variations from the first contract.

The first contract covers only if deleterious or harmful matter is actually proved to be in the product, the second covers if it is alleged to have existed, which takes care of the nuisance claim.

Coverage in the first policy only protects against the explosion and rupture of containers, while the second contains no such restriction.

UNDERWRITERS ASSOCIATIONS

Too many agents today consider the rules of the Underwriters Associations as the final word instead of basic regulations.

Rules were always made to be varied, and the Underwriters Associations are governed by the officials of the companies and staffed

by well-qualified experts, all being considerate, and open to reason, realizing also that there are peculiarities in every business and that adequate and efficient protection cannot always be provided by the arbitrary enforcement of general rulings.

Contrary to the impression created by the paragraph above, Underwriters Association officials are not all eligible for a favored place in the Old Men's Home—they can be tough babies on occasion, but I have never found them unfair or unreasonable, and I regret that I cannot say the same for myself and some agents I know.

As I am, very apparently, as Eddie Foy once remarked of Hamlet, "a very talkative person," I will not continue these examples ad infinitum and ad nauseum.

Research Section

*The following pages bring to light a portion of the original
work which is being carried on every day by the*

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Indigenes de l'Amérique du Sud et leurs usages

par J. G. Frazer

Archéologue et Anthropologue

Université de Cambridge

Cambridge University Press

Indigenes de l'Amérique du Sud et leurs usages

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Université de Cambridge

MERCHANDISE RETURNS—RETAILER'S VIEWPOINT

GEORGE C. CAMPBELL

Both agencies concerned with the transaction, store and customer, are responsible for this constant evil of merchandise returns—the store because it has not trained its selling and non-selling staff to perform their tasks with the maximum of intelligence, and the customer because she has not taken sufficient interest to make her purchases with care and discrimination. All types of stores have suffered, large and small department stores, as well as large and small specialty stores.

* * *

IT is impossible to solve this troublesome problem by fuming about the customer's unwillingness to appreciate the store's difficulties. Whether the fault be that of the customer or of the store, the customer will not rest until she has received exactly what suits her tastes and it may take one, two, or three purchases to achieve this.

Generally speaking, the best reputation is established by the store that satisfies the customer completely. The public does not see the internal operations, nor does it cogitate over the virtue of the store's intentions. It is often not satisfied with the purchases made, and feels justified in demanding other merchandise (or a cash refund) in exchange for the original purchase.

Returns here will be considered to include items of merchandise which are brought back or sent back to the store in exchange for other merchandise of equal or differing value. In some cases, they may include only those items for which cash or credit is requested, no replacement merchandise being desired. Also, goods which are sent out on approval and later returned are properly classified as returns.

The problem of returns is, then, a comprehensive one. This study will not attempt to render an exhaustive solution of the whole problem. It is confined to the ladies' ready-to-wear business, and within this field it seeks to determine the general policy with regard to returns.

STATISTICAL APPROACH TO THE PROBLEM

Classification of Stores

The questionnaire was presented to three different classes of stores, namely, Department stores, Specialty shops and Dry Goods stores. The

Department store classification may be further sub-divided into large department stores with an annual sales volume of over a half million dollars, small individually-owned department stores with sales of less than half a million and representative units of a progressive chain of medium-sized department stores.

Classification of Towns

The investigation was confined to Ontario and the towns included in the survey were divided into five groups on a population basis, as follows:

Group A.....	over half million
Group B.....	35,000 to 150,000
Group C.....	20,000 to 35,000
Group D.....	10,000 to 20,000
Group E.....	under 10,000

Group A included only the City of Toronto. Ten returns were received from this city. Group B included the cities of Ottawa, London, Hamilton and Windsor. A total of fourteen returns were received in this group, of which two were from Ottawa, six from London, three from Hamilton and three from Windsor. In groups C, D and E, twenty, eighteen and twenty returns, respectively, were received.

Statistical Analysis by Size of Town

Size of town was the first statistical check on the adequacy of the sample. There are approximately 600 stores selling ladies' ready-to-wear in the Province of Ontario.¹ The number of stores sampled in this survey was eighty-two or thirteen per cent. of the total.

PERCENTAGE OF SAMPLE TO PERCENTAGE OF ACTUAL DISTRIBUTION OF STORES

	Percentage of Interviews to Total	Percentage of Stores to Total
Group A.....	12	25
Group B.....	17	15
Group C.....	24.5	19
Group D.....	22	16
Group E.....	24.5	25

Statistical Analysis by Size of Store

The second statistical check used was the size of the store. The ideal measure for size of store, of course, would be sales volume. It was, however, not possible to secure sales figures for many of the stores

¹Dun & Bradstreet.

included in the sample. For this reason, this basis was abandoned and a less accurate basis was substituted, namely, the rating given by Dun & Bradstreet for "Estimated Strength."

A Third Possible Approach

A third check which would have been valuable is "type of merchandise sold," including high, medium and low priced goods. This would, however, have entailed an arbitrary basis for classifying the stores and it was felt that too much reliance would have been placed on the opinion of those answering the questionnaire. Furthermore, it was not possible to secure figures for the actual distribution of ladies' ready-to-wear stores in Ontario by type of merchandise sold.

It is believed that the returns secured represent a fairly adequate sample of the total number of stores selling ladies' ready-to-wear. On the basis of population, size of store and type of store, the sample is reasonably accurate and it is not believed that any other approach would contribute appreciably to the accuracy of the sample.

EXHIBIT A

ANALYSIS—By Size of Store—X
By Size of Town—Y

1.

Do you allow customers to take out garments on approval?

garments on approval:	81	0	34	100	70	90	85	50	94	54	85
—yes	19	100	66	0	30	10	15	50	6	46	15

2.—

Do you require that the garment be paid for in full before it goes out?

—yes	19	0	66	7	60	18	15	0	11	54	15
—no	81	100	34	93	40	82	85	100	89	46	85

3.—

When do you require that a cash deposit be left?

—always	26	...	0	13	72	31	23	0	12	63	38
—when customer isn't known	43	...	100	47	14	46	42	100	70	27	29
—never	31	...	0	40	14	23	35	0	18	0	33

EXHIBIT A

Total Group Results	X		Y		X		Y		X		Y		X		Y	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%

4.—

Do you insist that a customer decide about a product within a specified period?

—yes	Large	Group A		Group B		Group C		Group D		Group E	
		60	100	47	83	70	53	100	58	60	72
1 hour	3	0	0	0	0	4	0	0	0	0	0
1 day	54	0	0	42	60	58	56	50	50	33	46
* 2 days	24	0	50	29	20	29	33	0	20	0	40
3 days	16	100	0	29	20	9	11	50	30	33	7
1 week	3	0	50	0	0	0	0	0	0	34	7
—no	34	0	0	53	17	30	47	0	42	40	28
1 hour	0	0	0	0	0	0	0	0	0	0	0
1 day	34	0	0	38	100	40	63	0	29	50	20
* 2 days	48	0	0	50	0	40	37	0	43	0	40
3 days	14	0	0	12	0	10	0	0	9	50	40
1 week	4	0	0	0	0	10	0	0	9	0	0

5.—

What price class of goods is most frequently taken out?

—\$2.95 to \$5.00	12	0	100	13	28	11	6	25	6	0	10
—\$6.95 to \$10.95	24	0	0	27	28	20	13	0	25	43	29
—\$12.95 up	41	0	0	40	44	40	55	0	38	43	19
—all prices	23	0	0	20	0	29	26	75	31	14	42

6.—

What do you do in the case where a customer buys a garment and then, having changed her mind, returns it without having worn it?

—cash refund	61	50	67	87	70	52	70	50	33	63	71
—exchange	20	0	16	0	30	30	15	25	28	28	24
—credit slip	8	0	0	13	0	2	5	25	33	9	5
—choice	4	50	17	0	0	1	0	0	6	0	0
—exchange or credit	7	0	0	0	0	15	10	0	0	0	0

7.—

Would you allow a customer to return goods, bought at regular prices, for goods which were on sale?

—yes	56	100	67	87	30	43	65	25	61	54	58
—no	44	0	33	13	70	57	35	75	39	46	42

* % of sub group.

EXHIBIT A—(Continued)

8.—	Total Group Results											
	X		Y		X		Y		X		Y	
	%	%	%	%	%	%	%	%	%	%	%	%
If a customer bought a garment for \$15.00 and, changing her mind, returned it to find that the price of this same garment had been reduced to \$10.95, would you												
—give a refund of \$15.00?.....	38	100	67	47	30	29	70	0	39	34	29	
—give a refund of \$10.95?.....	15	0	16	20	10	18	0	0	17	9	29	
—give no refund at all?.....	42	0	17	26	60	47	30	100	44	57	42	
—exchange with credit for difference?	5	0	0	7	0	6	0	0	0	0	0	0
9.—												
In your opinion, which woman is the most frequent offender												
—the woman who overspends, realizing it later?	8	0	50	0	20	7	25	25	0	19	5	
—the woman trying to impress companion by purchase?.....	12	0	0	26	0	13	15	25	0	0	24	
—the woman who can't decide?	55	0	50	74	80	50	60	25	72	54	38	
—no answer?	25	100	0	0	0	30	0	25	28	27	33	
10.—												
How would you suggest improving the returned goods problem?												
—refusing the privilege to chronics	14	0	17	0	30	22	15	50	28	28	0	
—better training for sales clerks	30	100	33	53	40	25	55	0	55	28	47	
—co-operation among all ladies' stores	44	0	50	47	30	46	30	50	17	35	47	
—no answer	12	0	0	0	0	7	0	0	0	9	6	

Analysis of the Results

The questions in the questionnaire may be divided into those which are matters of fact and those which are matters of opinion. Questions one to eight are purely factual—they require the retailer to set down the practice carried on in his store. Questions nine and ten are matters of opinion, requiring the retailer to express his opinion on the various reasons for the return goods "evil" and to make suggestions for improving the situation.

The answers to the first question indicate that an overwhelming number of the retailers engaged in the ladies' ready-to-wear business allow approval sales. Those for question two demonstrate that the large majority of stores do not require full payment for goods sent

out on approval. Those stores which do not require full payment may or may not insist upon a deposit.

The three alternatives which are presented in question three indicate when a cash deposit is required on an approval sale. It will be observed that only 20 per cent. of the total number of stores always insist upon a cash deposit. A majority of the remainder require a deposit when the customer is unknown to them, but the balance do not require a cash deposit under any circumstances.

Sixty per cent. of the stores permitting approval sales indicated by their answers to question four that if a dress were taken out on approval it must be decided upon within a specific period of time. This interval varied from one hour to one week, but in 94 per cent. of the cases the period allowed for reaching a decision was from one to three days. Furthermore, in 54 per cent. of the sample, the period was limited to one day. Twenty-four per cent. allowed two days and sixteen per cent. allowed three days.

Thirty-four per cent. of the stores permitting approval sales did not insist that their goods be brought back within a specified period of time.

It will be noted that in the case of those stores which had a definite rule regarding the length of time garments could remain out on approval the results were significant since they indicated an actual practice. In the case of those stores which did not have a specific time limit, however, the results were not so significant because they represented only the recall of tendencies. Nevertheless, the usual experience appears to be that garments are returned within two days when left to the discretion of the customer.

Comparative Analysis of Results by Size of Stores

The breakdown of the results to the questionnaire by size of store brought to light several interesting aspects of the problem. It would seem that approval sales are largely confined to "medium" and "small" sized stores. The probable reason for this is that "large" replace approval sales with liberal return policies, while the "very small" stores do not have the financial resources to permit approval sales. The vast majority of stores in all of the groups do not require full payment for a garment before it leaves the store.

More of the "medium" sized stores than the "small" stores never required a deposit on approval sales. With the exception of the "medium" group, all stores had a time limit during which customer

must decide about garments but the specific time limit varied considerably among the various groups. Those stores which do not have a specific limit find that, in most cases, garments are returned within a reasonable period of time.

Both "medium" and "small" stores reported that the bulk of their approval sales are made in their higher price lines.

It was indicated in the answers to questions six, seven and eight that the liberality of returns policy was closely allied to the size of the store; the large stores being very liberal and the "very small" store very strict in their return requirements.

The woman who cannot make up her mind was blamed as the most frequent offender by stores in the "medium" and "small" classification, while the woman who tries to impress a companion was blamed to a lesser extent.

Stores in the "large" and "medium" groups favoured better training of sales clerks as a remedy for the "return goods evil," but the "small" and very small groups tended to favour co-operation among the stores.

Comparative Analysis by the Size of Town

The results of the survey are classified according to the size of the towns in which the individual stores were located.² This chapter is devoted to an analysis of the influence of the size of the town in which a store is situated upon the store's return policy, as indicated by the answers to the questionnaire.

Extent of Approval Sales

A majority of ladies' dress merchants in all towns except cities of over half a million population (Group A) permit approval sales. In Group A, only thirty-four per cent. of the stores permit approval sales. This result may, however, be misleading. The number of returns secured from stores in this group was admittedly low in relation to the total number of interviews made. Furthermore, the presence in this group of several stores classified as "large" in the preceding chapter and which, as was noted, do not permit approval sales may have caused the results to be unrepresentative.

It would seem that, as the size of the town increases, fewer and fewer merchants grant approval sales. Thus, ninety-four per cent. of

²The basis for classifying the towns into groups on a population basis is given under "Statistical Approach to the Problem."

the merchants in Group D permitted approvals, while only eighty-five per cent. and seventy per cent. of those in Groups C and B, respectively, followed this policy. On the other hand, in the smallest towns (Group E) only eighty-five per cent. permitted approvals compared to ninety-four per cent. in the next largest group. This tendency was collaborated in the comments made by merchants doing business in the smaller towns, many of whom stated that, because of the size of the community, they were forced to adopt certain policies, including approval sales which they would not otherwise employ.

Deposit Requirements

Stores situated in cities which are classified in Groups A and B usually require that garments be paid for in full before they leave the store, but those in the three groups of smaller towns usually do not make this requirement. Sixty-six per cent. of the stores in Group B refused to permit merchandise to go out unless it was paid for in full, whereas only eleven per cent. of those in Group D and fifteen per cent. of those in Group C and in Group E did likewise.

Time Limit

In towns and cities of all sizes, a majority of the stores have a rule that all returns and adjustments must be made within a definite period. There is a tendency, however, for a decreasing proportion of the stores to make this requirement as the size of the town decreases. All the stores in Toronto have a time limit on returns, eighty-three per cent. of those in cities of 35,000 to 150,000 have this requirement, while only fifty-three per cent. and fifty-eight per cent. of those in cities of 20,000 and 35,000 and 10,000 to 20,000, respectively, enforce such a rule. The tendency is not borne out by the results for towns under 10,000, however, since a greater number of them, seventy-two per cent., than of the towns of the next larger groups of towns enforce a time limit on returns.

Little variation was shown in the breakdown by size of town of the period during which returns must be made. In all groups a majority of the stores had a time limit of two days or less. Only two stores had a time limit of a week, one of which was in Toronto, the other in a town of less than 10,000 population.

Approval Price Classes

In all except the largest and the smallest towns the more expensive garments were most frequently taken out on approval. The result for Group A (Toronto) may be misleading again in this instance because

the sample in Toronto was too heavily influenced by large department stores which do not permit approvals. Thus, although one hundred per cent. of the stores permitting approval sales reported that approvals were chiefly confined to low-priced goods, the total number of such stores was so small that the possibility of chance was high for the town with a population of less than 10,000. Forty-two per cent. of the stores reported that approval sales were not concentrated in any price class. Since this group included many small stores which may have used this answer as a means of camouflaging the predominately low-priced aspect of their business, this result, too, must be regarded with suspicion.

Exchange on Sale

With one exception, all the population groups contained more merchants who would permit merchandise bought at regular prices to be exchanged for merchandise which was on sale than merchants who did not. This exception was in Group B, where only thirty per cent. of the stores would permit such an exchange. In the other groups, no marked variation occurs. The lowest number (fifty-eight per cent.) was in the smallest towns, and the highest in the largest. Were it not for the results in Group B, it might be concluded that liberality of exchange policy, insofar as it is measured by this question, varied directly with the size of the town. Although the inconsistency of the results in Group B may be due to faulty distribution of the sample, it may be true that stores situated in towns of this size do not have a more strict return policy than do stores in either larger or smaller towns.

Reduced Price

As in the case of goods exchanged for goods on sale, when analyzed by the size of the town the answers to question eight, which is concerned with the policy followed in handling a garment which is returned after similar garments have been marked down, showed a definite trend with the exception of Group B towns. In Group B towns, thirty per cent. of the merchants would refund the full purchase price, sixty per cent. would allow no refund, and ten per cent. would refund an amount equal to the price at which similar goods were marked when the return was made. As between the other groups, there is a trend toward less liberality in each group of successively smaller towns. In Group A, sixty-seven per cent. would refund the full purchase price, ten per cent. would refund the marked-down price, and only seventeen per cent. would make no refund. In Group C, seventy per cent. would refund the full purchase price, but thirty per cent. would allow no refund. The

results for Group D show that thirty-nine per cent. of the stores in towns of this size would refund the price of similar goods now in stock and forty-four per cent. would permit no refund. In the smallest towns (those included in Group E) forty-two per cent. of the stores would permit no refund, while twenty-nine per cent. would give a partial refund and an additional twenty-nine per cent. would give a full refund.

Most Frequent Offender

In towns of all sizes the consensus among merchants was that the woman who cannot make up her mind is the worst offender in the matter of returns. In all groups except A and E, a majority of the merchants sampled leaned to this view, but only fifty per cent. of those in Group A and thirty-eight per cent. in Group E held this opinion. Overspending was blamed by fifty per cent. of the merchants in Group A, twenty per cent. of those in Group B, twenty-five per cent. of those in Group C, and five per cent. of those in Group E. In only Groups C and E did any merchants consider the woman who is trying to impress a shopping companion of major importance in the returns problem. Fifteen per cent. of the sample in Group E placed the onus on this cause. Twenty-eight per cent. of the sample in Group D and thirty-five per cent. of those in Group E did not answer this question, but answers were obtained from all merchants interviewed in each of the other three groups.

SUGGESTIONS FOR IMPROVEMENT

In general, merchants in the larger cities believed that the solution to the problem of returns lies in improving the quality of retail salesmanship, while merchants in the smaller towns considered that co-operation among retailers in setting up standard return policies and adhering to them was the method most likely to succeed. In all groups, a considerable proportion of the trade believed that refusal of the return privilege to chronic offenders could alleviate the situation.

A rather surprising result was that forty-seven per cent. of the merchants in the smallest towns believed that better training is the answer to the returns problem. The idea that better salesmanship can control returns was otherwise confined pretty much to the large cities, since only thirty per cent. in Groups B and C, and seventeen per cent. in Group D made this answer. Only thirty-three per cent. of the stores in Group A and forty per cent. of those in Group B believed that co-operation would help, but in the smaller towns most merchants held this opinion. Fifty-five per cent. of those in both Group C and Group D

and forty-seven per cent. of those in Group E favoured co-operation. Thirty per cent. of the merchants in Group B stores (more than in any other group) believed that refusing to extend the return privilege to chronic offenders was the solution to the problem. Seventeen per cent. of the sample in Group A, fifteen per cent. of the sample in Group C and twenty-eight per cent. of the sample in Group D also held this opinion.

In general, it may be said that most ladies' garment retailers realize that the return of goods is an important problem but that there are wide variations in the suggestions offered for its solution and, indeed, in opinion as to whether or not it is necessary or desirable to attempt a solution.

MERCHANDISE RETURNS—CUSTOMER'S VIEWPOINT

TOM FAUST, JR.

The problem of merchandise returns in retailing is recognized by all store managers but overcome by only a few. The purpose of this study is to find out from the consumer his attitude with respect to the return problem and from these findings to deduce a few generalizations which may be applied to almost all retail businesses.

* * *

BEFORE we can go very far in this study, it is necessary to define the term "Merchandise Return." There are, as a rule, four conditions under which merchandise is returned.¹

1. Merchandise may be sent out from the store on approval and returned because, for some reason, it does not satisfy the customer.
2. Merchandise may be sent c.o.d. and returned because the customer does not have the necessary cash, because she has changed her mind in the interval between the purchase and the delivery of the merchandise, or because the merchandise does not meet with her approval when she examines it the second time.
3. Merchandise which is unsatisfactory may be brought to the store and exchanged for other merchandise.
4. Merchandise may be returned because the customer has some objection to it or to some condition surrounding its purchase.

CLASSIFICATION OF QUESTIONEES

Customers have been divided into four classes. Class A are those of substantial wealth, above the average in culture and with at least one servant. Class B are people who belong to the middle class who can have all the comforts of moderate living without stinting themselves. Class C are people who live quite comfortably but have to do so without servants, large homes, and who can afford only very cheap cars. Class D are people who belong to the unskilled labour class and they have to struggle to make both ends meet.

¹*Merchandise Returns in Department Stores*, L. H. Grinstead, Section II, Chapter 1.

Since this questionnaire was answered only by women, the questionee was classified according to the amount of money which she was judged to be spending on clothes. To explain this still further, a secretary earning \$20 a week would be put in Class C if it were known that she did not have any dependents, but the wife of a labourer earning \$20 a week would be classified as Class D because she would not have as much to spend on clothes as the secretary.

Once the lines of distinction were drawn between the four classes, the next problem was to find the number from each class to interview. Mr. K. S. Murray, in his thesis on "Radio Listening Habits," used the following classification:

Class A	8%
Class B	10%
Class C	32%
Class D	35%
Class E	15%

However, at the time of making this study, it was found that people who would come under Class E would be on relief and the amount of money each housewife spent on clothes would be exceedingly small, so it was decided to omit Class E and spread the 15 per cent. over Classes C and D. (See Table 1.)

TABLE 1
TYPES OF CUSTOMERS INTERVIEWED

Class of Customer	Number of Questionnaires Received	Percentage of Total
Class A	16	8%
Class B	20	10%
Class C	74	37%
Class D	90	45%
 Total number received	 200	 100%

RECENCY OF RETURNS

One of the first questions asked of the questionee was, "When did you last make a return to a store?" This question received a wide range of answers, the extremes being from "yesterday" to "five or ten years" and even the answer "never" was received several times.

The age of the person interviewed was estimated and the answers to the above question were tabulated by the class and under the various age groupings such as, under 25, 25-34, 35-45, and over 45.

THE RANKING OF THE CLASSES WITH RESPECT TO THE RECENTY OF RETURNS

On the average, A class returned goods more recently than B class. B class returned goods more recently than C and C more recently than D class. This applies to the different classes taking all the age groups together. However, when the various classes are broken down into age groups it can be seen that in most cases the time elapsed since the last return seems to be greatest in the age group of over 45 years of age for all classes.

Now from this data it would seem that if a definite attempt is going to be made to cut down returns in a store, the place to start is with Class A and B under 45 years of age. It was found in conducting interviews that Class C and D on the average do not return merchandise nearly as frequently as Class A and B because Class C and D have only a limited amount to spend and so they were much more careful in making their purchases, and therefore they were satisfied more often.

ARTICLES WHICH WERE RETURNED TO THE STORE THE LAST TIME THE QUESTIONEE MADE A RETURN

This question was used to see which articles are returned most frequently by customers. The following table shows, roughly, the articles which are returned most frequently and their order of importance:

1. Women's Ready-to-Wear Accessories
2. Women's Ready-to-Wear
3. Men's Ready-to-Wear
4. Home Furnishings
5. Shoes
6. Miscellaneous.

There did not seem to be any limit to what a person would return. In one case a customer returned a fifteen-cent toy snow shovel because it was the wrong colour, and in another case a ten-cent toy was returned by means of the store's delivery system. There were many reasons given for the return of merchandise but these will be dealt with later.

HAVE YOU EVER RETURNED A DRESS?

The answers to this question showed that 39.4 per cent. of the women questioned had returned a dress at one time or another. The

following table shows what proportions of the various income groups replied in the affirmative:

Income Group	Yes	No
Class A	43.8%	56.2%
Class B	65%	35%
Class C	44.8%	55.2%
Class D	28%	72%

According to this table, members of the D group (chiefly the wives of the labouring men), do not return goods as frequently as do the members of the other groups. The proportion in Class C is high because this class includes secretaries who spend most of their money on clothing.

HAVE YOU EVER RETURNED A HAT?

This question was also used to see if there was any evidence of a trend in the buying habits of the various classes interviewed:

Income Group	Yes	No
Class A	56%	44%
Class B	60%	40%
Class C	30.4%	69.6%
Class D	21.8%	78.2%

31.8 per cent. of the total answered "yes" to this question.

Class B still leads in this question for the highest number of "yes" answers. It was learned while conducting interviews that a number of people have their hats made to order but there did not seem to be any tendency for one class to do this more than another except Class D, which seldom has hats made to order.

HAVE YOU EVER RETURNED ANY FURNITURE?

This question was used to see if there was any difference in tendencies of the different income groups with respect to returning merchandise other than wearing apparel.

Income Group	Yes	No
Class A	45.4%	54.6%
Class B	33.3%	66.7%
Class C	19.2%	80.8%
Class D	15.1%	84.9%

20.3 per cent. of the total number of people interviewed answered "yes" to this question.

These results show a very distinct trend downward in the number of furniture returns as you go from Class A down to Class D.

It is interesting to compare the totals of the "yes" and "no" answers in percentages for the three questions.

Question	Yes	No
Have you ever returned a dress?.....	39.4%	60.6%
Have you ever returned a hat?.....	31.8%	68.2%
Have you ever returned any furniture?.....	20.2%	79.7%

These results show to what extent customers have been using the privilege of returning merchandise and also what type of merchandise seems to be returned most frequently.

Now, let us turn more to the customer's buying habits and preferences with respect to the privilege of returning merchandise.

CUSTOMER'S LIKES AND DISLIKES WITH RESPECT TO THE PRIVILEGE OF RETURNING MERCHANDISE

This study was designed in such a way that it would be possible to ascertain the customer's preferences without mentioning any store's name. It was surprising the way numerous questionees, when they tried to explain their attitude towards the return privilege, referred to two stores in the test town which had different policies with respect to returns and stated why they liked one in preference to the other.

DO YOU KNOW OF ANY STORE WHICH WILL ACCEPT NO RETURNS?

A straight "yes" or "no" answer was all that was expected for this question, although many people in answering it were able to name stores right off-hand which would not accept returns. The following table shows the answers given by the different income group:

Income Group	Yes	No
Class A	68.7%	31.3%
Class B	65%	35%
Class C	65.3%	34.7%
Class D	55.8%	44.2%

The next question asked was:

DO YOU DEAL WITH STORES WHICH WILL ACCEPT NO RETURNS?

The figures relating to the answer to this question should prove interesting to retailers who may be interested in changing their present return policy.

Income Group	Yes	No
Class A	31.2%	68.8%
Class B	55%	45%
Class C	37%	63%
Class D	37.5%	62.5%

This table shows that out of a possible one hundred customers only 38.5 per cent. of them deal regularly with a store which will not accept returns as a general policy. This does not apply to certain types of articles with which it is the common practice not to allow returns, such as hair ornaments and costume jewellery. This seems like a surprisingly small number of people who deal regularly with a store which will not accept returns. This figure might be raised to a certain extent when you consider that some people may patronize a store which does not accept returns but not know it because they never had an opportunity to find out. In spite of all this, however, it would seem that it would be very wise for a retail establishment to consider very carefully the arguments for and against this return problem before setting down any hard and fast rules.

HAVE YOU EVER TRIED TO RETURN MERCHANDISE AND BEEN REFUSED?

This question was used for several reasons. One was to see to what extent people have been refused when they tried to return merchandise and the other was to see if one class had been refused more than another. The following table shows the answers given to the question by the different income groups:

Income Group	Yes	No
Class A	18.7%	81.3%
Class B	31.6%	68.4%
Class C	30%	70%
Class D	30%	70%

This table shows that Classes B, C and D are all close together in their replies. Class A is quite low and the reason for this is that people in Class A spend much of their time shopping and they get to know just what stores will not accept returns and so they realize that there is no use in trying. Different stores have been carrying out a policy of marking special sale articles and other articles which cannot be returned and it is believed that this has helped to keep the number of return materials down, especially in Class A, which has already been mentioned above, who do more shopping and more buying than the other classes. It has often been said that certain people, when they

have not anything else to do, will go down town shopping for the enjoyment of it and later send many of their purchases back. This type of customer is most often found in Class A.

**IS THERE ANY TYPE OF PRODUCT YOU WOULD
NEVER RETURN TO A STORE?**

This question was used to see if customers realize that there are certain things that cannot be returned. Some people in answering it said that there was absolutely nothing which they would not consider returning to a store if there was something wrong with the article.

The following answers were given to the question:

Income Group	Yes	No
Class A	75%	25%
Class B	80%	20%
Class C	82.2%	17.8%
Class D	70.1%	29.9%

76.7 per cent. of the answers to this question were in the affirmative. Several of the questionees answered this question by stating certain things which they would not return, so a list has been made of some of the answers given by these people:

Toilet goods	Special sale goods
Hair combs	Anything under fifty cents
Anything personal	Stockings
Dress material	Anything worn
Anything own fault	Dated articles
Cosmetics	Bathing suits
Anything given to her by her husband.	

Some of these answers were given by more than one questionee, especially the answers referring to jewellery and "anything worn." From these results it seems that people are becoming more conscious of the problem for the retailer of returning merchandise and they seem willing to co-operate to a certain extent. If more people would adopt the attitude that they would not return anything if it was their own fault, then the return evil would be greatly lessened.

**DOES A CASH REFUND POLICY AFFECT YOUR
CHOICE OF STORE?**

This question had to be enlarged on quite often when conducting interviews and it was often re-worded to ask, "If you knew of a store where you could get a cash refund, would you go there in preference

to one where you could only get a due bill or where you could not return merchandise?" It was believed at first that the answers would all be "yes" but several times people said "no." They explained their attitude by saying that they would go where they could get the best bargain, or get exactly what they wanted, or some said that they were always very careful in shopping and they never returned merchandise and so they did not care if the store returned merchandise or not. The actual results are shown below:

TABLE 2
DOES A CASH REFUND POLICY AFFECT YOU IN
CHOICE OF STORE?

Income Group	Under 25		25 - 34		Age Group		Over 45	
	Yes	No	Yes	No	Yes	No	Yes	No
Class A	40%	60%	75%	25%	100%	...	33%	67%
B	85.7%	14.3%	100%	...	100%	...
C	86.9%	13.1%	85%	15%	100%	...	100%	...
D	89.7%	10.3%	83.3%	16.7%	81.8%	17.2%	75%	25%

AVERAGE OF ALL AGE GROUPS BY INCOME GROUPS

Income Group	Yes	No
Class A	57.1%	42.9%
Class B	87.5%	12.5%
Class C	91.5%	8.5%
Class D	85.2%	14.8%
Average of Income Group	80.3%	19.7%

These two tables show that there is definitely a preference for a store which has a cash refund policy. Classes B, C and D in all age groups very definitely have a preference for a cash refund. Over 50 per cent. of the questionees in Class A have a preference but this is not as strong as in the other three classes.

In conducting the interviews the questionees used many different expressions to show their emphasis in their answers. These expressions include:

Absolutely	Very much
Decidedly	Not necessarily
Certainly	Sometimes
Very definitely	Undoubtedly

This paper so far has dealt with the consumer's habits and likes and dislikes as far as making returns is concerned. It has been shown that most consumers prefer dealing with a store which will accept

returns and which will give a cash refund without too much fuss or embarrassment for the customer. Now, let us see what are liable to be the results of a policy of accepting returns without having some sort of a check on it. A question was designed which would show up some of the weaknesses of a too-liberal return policy.

INSTANCES OF UNFAIR RETURNS

It has been found that quite often when a group of women get together the subject of conversation frequently is shopping, and once in a while the question of returns is brought up. It is at these informal meetings that some very odd cases of returns have been mentioned which have been unfair to the store. It was realized that no customer would admit taking anything back which would be unfair to the store, so a question had to be worded so these unfair returns would be mentioned. The question used was, "Do you know of any article which has been returned which has been unfair to the store?" The question received the following replies:

TABLE 3
RETURNS—UNFAIR TO THE STORE

Income Group	Yes	No	Clothing Article or Otherwise
Class A	33.3%	66.7%	75%
Class B	52.6%	47.4%	90%
Class C	60.4%	39.6%	76%
Class D	48.8%	51.2%	67.5%
			32.5%

It was found that 52.6 per cent. of all the people interviewed had heard of returns having been made to a store which were unfair. Table 3 shows the distribution among the various income classes. The questionees were also asked to name the article which had been returned and also the reason that it was unfair to the store. Table 3 shows that clothing was by far the most common article returned in this category. The actual percentages showed that of all articles returned in which the return privileges had been abused 66.2 per cent. of these articles were clothing. Some very strange and unusual cases were related, along with some everyday occurrence in which the returns had been unfair to the store.

Article Returned	Reason
Dress	Worn (15 answers)
Evening gowns and wraps	Worn (10 answers)
Jewellery	Worn (4 answers)
Radio	Used for dance

Coat	Used as design by dressmaker
Lingerie	Kept four months before returning
Lace cloth	Used for afternoon tea
Boy's suit	To have picture taken in it
Pyrex dishes	Purchased in another city
Complete china set	Used as display at a trousseau tea
Rug	Used for party
Furniture suite for newlyweds	Wanted for show purposes only
Book	
Nail polish	Gift: read and exchanged
Fur coat	Used half and rest exchanged
Outfit for funeral	Worn to a funeral to keep warm, and returned
Wool	Used and returned
Corner cupboard	Had not been purchased at the time which it was returned
	Had it sent to see if it would fit; all right; then returned and and waited for special sale and got 10 per cent. off.

The above list is enough to question the policy of allowing returns at all. The dealer is in rather a difficult position. If he allows customers to make unreasonable returns as are listed here, the customer will continue to patronize this store, and probably continue to make unreasonable returns. However, if the dealer refuses, the customer feels offended and patronizes another store. Many retailers are realizing the risks or liabilities that are incurred by such a type of customer and lately many retailers are refusing to accept these unfair returns and also refusing to grant credit to this type of customer, believing, and rightly so, that they are better off in the long run. If a customer is unfair to a store once and gets away with it, the writer is inclined to believe that the customer will try it again.

A blacklist of customers who abuse the return privilege should be made up in every store. The retail merchants in every city should pool this information and act accordingly because co-operation among all retailers in one trading area would go a long way toward reducing these unfair returns.

In the list given above, it is seen that fifteen people have heard of unfair dress returns, ten have heard of unfair gown returns, and four of unfair jewellery returns. It is easy to see that the place to

start cutting down abuses to the privilege of returning merchandise is with the above-mentioned type of articles. Steps have already been taken by many stores to prevent jewellery from being returned and the results from this seems to favour the possibility of cutting down returns on dresses by prohibiting returns on some types of dresses and evening wear and by allowing only a very limited time allowance on other lines of dresses. One questionee stated that she knew of a person who wore an evening gown to a dance, had her picture taken and published in the newspaper in that dress and then returned the dress. Cases like this show the glaring abuses to the privilege of returning merchandise and this will continue unless definite steps are taken to end these abuses.

**HAVE YOU EVER BEEN DISSATISFIED WITH AN ARTICLE
AND DID NOT RETURN IT?**

In conducting interviews it was found that many people not only abuse the privilege of returning merchandise, but on the contrary did not use it enough. This may sound like an overstatement after some of the examples given before, but the statement can be easily explained. Many people often make unsatisfactory purchases. It may be their fault but quite often it is the store's fault, and the result is a dissatisfied customer. Many of these customers will not return their purchases for the reasons shown on the list in Exhibit 2, and this is liable to be more disastrous to the store than a person who returns the merchandise.

This statement is all the more true when the dissatisfaction is the fault of the store. Customers who are dissatisfied with their purchases at one store very often are soon going to buy elsewhere.

TABLE 4

Income Group	Yes	No
Class A	75%	25%
Class B	95%	5%
Class C	86.4%	13.6%
Class D	72%	18%
 Total.....	 83.6%	 16.4%

EXHIBIT 2
**SHOWING WHY SOME PEOPLE ARE DISSATISFIED WITH THEIR
PURCHASES AND DO NOT RETURN THEM**

Article	Thing Wrong	Reason for Non-Return
1. Lingerie	poor quality	not enough nerve
2. Stockings	wrong shade	laziness
3. Hat	too many like it	too much bother

4. Dress	did not like style	store's attitude
5. Gloves	merchandise imperfection	unpleasant task
6. Shoes	did not fit	could not be bothered arguing with the salesman
7. Dress	did not like it	scared
8. Dress	badly made	stores insult you
9. Hat	did not fit	talked into buying it; worn.

Some of the reasons for not returning merchandise have been shown in Exhibit 2. These answers were just picked out at random. Some of the reasons given definitely show that the trouble was because of merchandise imperfection; other reasons show laziness or that customers realize that it was their own fault. Some reasons show that it is embarrassing for the customer and in some cases the customers have said that the stores make it unpleasant for them. These last reasons are the ones which should not occur and the ones most likely to harm the store. A table has been drawn up to show the importance in number of the various answers received.

TABLE 5

Too much bother	27.2%
Embarrassing	18%
Store's attitude	16.5%
Worn	15.5%
Own fault (of customer)	14%
Could not return	5.9%
Talked into buying	1.9%

Table 5 shows the percentages of the different reasons why customers did not return unsatisfactory merchandise. The answer "too much bother" is the most commonly used. This answer indicates that the reason for the return not being made depended chiefly on the customer. This is pointed out to show that the store is not responsible for the customer not returning the merchandise. The following three answers are really the store's fault and they can be combined in total; they are, "embarrassing"—18 per cent., "store's attitude"—16.5 per cent., and "talked into buying"—1.9 per cent. These answers belong together and the total is 46.4 per cent. This total is the percentage in which dissatisfaction towards the store is liable to creep in. This total represents a danger spot for the store because the customer may not only stop purchasing from one particular store but besides that the customer is quite likely to tell her friends about the way she has been treated by the store. Some customers were found to be greatly incensed towards certain stores because of the store's attitude

towards them. One example was a middle-aged man who bought a shirt and took it away with him on a trip but when he tried to use it he found it was much too small and when he returned to town a week later and tried to return it the store claimed the shirt had been worn. This case shows that, although the shirt was probably creased to a certain extent from being in a travelling bag, still the shirt was not worn and the store, by insisting that it was, lost a customer and probably saved a dollar. Another example was a woman of around forty years of age in Class C. She had purchased a dress which did not fit so she attempted to take it back but the store was very disagreeable about it and made the woman feel "very uncomfortable." The woman has not dealt there since, except when she has been unable to get what she is looking for elsewhere. These examples show that a store has to be exceedingly careful with each and every case of merchandise returns to avoid losing a customer and also to avoid losing money. 14 per cent. of the questionees said that the reason they did not return unsatisfactory merchandise was that it was their own fault. If more customers would realize their own mistakes it would help greatly in reducing the number of returns.

There were two reasons why customers returned merchandise which were not the fault of the customer but which questionees commented on when being interviewed. They said that many shades and colours which appeared to match under artificial light did not go so well together in the daylight. It is firmly believed after hearing these comments that definite steps should be taken to have a place in the store where customers can take the merchandise to compare shades in the daylight or else have a sufficient number of blue lights in order to make artificial light as nearly identical to natural as is possible.

Another cause of dissatisfaction is the wide discrepancies in sizes put out by different manufacturers. Many questionees were rather indignant on this matter but none of them blamed the stores. They blamed the manufacturers and some even said that these manufacturers should be boycotted if they will not make their sizes all agree with a standard. The writer realizes that certain manufacturers believe that by having their own sizes they get the consumer used to buying that particular brand and they will continue to do so, in order to be sure that it will fit.

Another source of returns is high pressure selling by clerks. Some of the examples of unfair returns mentioned earlier in this thesis may lead one to believe that this is the rule rather than the exception. How-

ever, the impression received by the writer after many interviews on this subject was that many customers are naturally shy and they like to make their purchases in a hurry and get out of the store. These people are very easily talked into buying something, which turns out to be unsatisfactory, by clerks who are too anxious to make their quotas. If this type of customer can be made to feel at home in a store and not rushed or embarrassed into buying merchandise with which they are not completely satisfied, the number of returns caused by over-selling will be reduced.

COMMENTS BY CUSTOMERS

During the interviews the questionee was encouraged to talk on the subject of returns and give his or her own ideas besides answering the questions asked. Many customers had interesting comments to make, some with respect to returns and some referring to store policies in general.

One man in Class D went shopping for a suit. His clothing was not as expensive looking as many men and when he entered a large clothing store he had to wait quite a long time before he was waited on. The clerk showed the customer a few suits and made no effort to help this customer find what he wanted. The customer became disgusted with the service shown him and left the store. He went into a smaller store and was met almost at the door by the manager with a big smile and made to feel that he was one of the best customers the store had. Needless to say, this man found a suit which suited him. The man now needed a hat to go with the suit but this store did not have one. The man looked all over town and finally had to return to the first large clothing store. He was given almost the same treatment and the customer finally, in desperation, took a hat which was suitable in colour but a very poor fit. This episode was told to the interviewer in detail and the customer stated that the next time he wanted anything in the clothing line he would go to the smaller store because he felt that he was given better service and he was "sold" on what he purchased and did not regret his purchase as he did the hat. This is a case where the cause for merchandise returns lies within the store. This particular customer did not make a return but he was dissatisfied and, as has already been pointed out, this is more serious than a return for the store.

Several married women were interviewed who had been clerks previously to marriage and these people understood the problem confronted by the stores and in every case it was found that they very

seldom, if ever, returned merchandise. They admitted they considered themselves careful buyers and said that if they were the cause of an unsatisfactory purchase they would not consider returning it.

It has been found that many people have been dissatisfied with purchases because of merchandise imperfections. It is believed that any imperfections on merchandise up to the time of delivery in the home should be settled by the retailer and then the retailer should recover from the manufacturer. Customers who get imperfect merchandise often become disgusted with a store and go elsewhere to purchase. It is unwise for a store to try to pass damaged goods off on customers without acknowledging it and making cash settlements with the customer.

Several times a customer said that she did not want to return merchandise because she was a friend of the proprietor and did not wish to offend him. It is the writer's opinion that they will do more harm to their friends by not taking the merchandise back to the store.

SUMMARY

This study shows that no hard and fast rules can be laid down governing the treatment of the troublesome and costly problem of merchandise returns. The conduct and preference of individual customers vary considerably. However, a fair, common sense policy is the best. If the retailer treats the customer fairly, in the long run, and for the most part, he will receive fair treatment in return.

The first problem involved was that of finding a suitable sample of all classes of consumers on which to base the survey. London, Ontario, was chosen as a typical town because it is a medium size and fairly conservative city, with well-diversified industries, and therefore not as much affected by depression and prosperity as most.

A suitable test group of merchandise was determined by a study of a survey made by Mr. H. D. Comer. His findings reveal that returns were greater in the women's ready-to-wear field than in any other. Therefore, this particular group was stressed in the questionnaire upon which this study is based.

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